

MGT 104

Microeconomics



Demand

[di-'mand]

An economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.



What is **DEMAND**?

- “Every want supported by the willingness and ability to buy” – constitutes demand for a particular product or services.....
- In other words, if a person wants a CAR and cannot pay for it. There is no demand for the CAR from his or her side.....

DEMAND

What is DEMAND?

Demand is the quantities that a person or market is ready, willing and able to buy.

(Ex. Bill Gates is able to purchase a Ferrari but if he is NOT willing to buy one, Then he has NO demand for one)



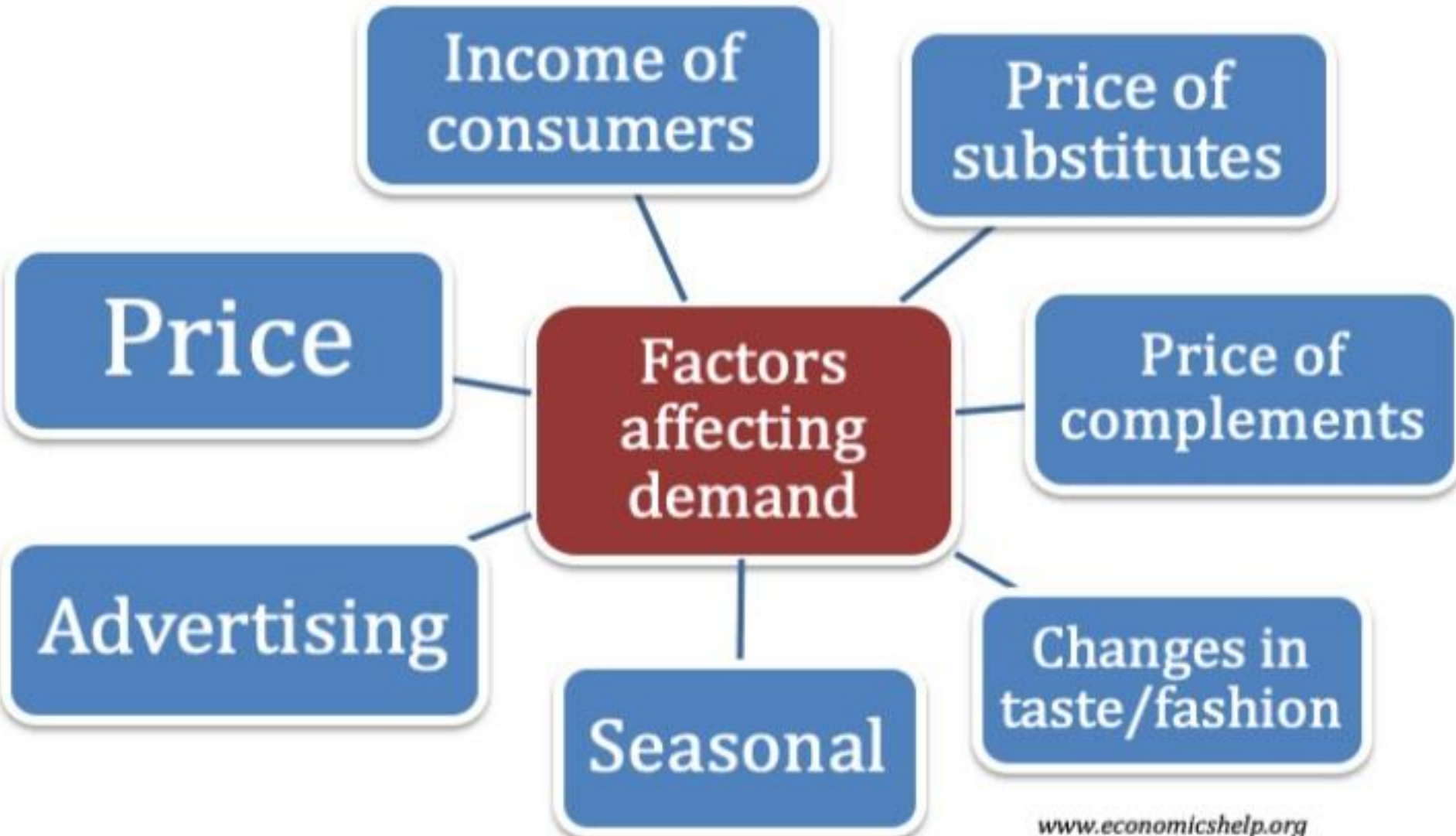
What is the Law of Demand?

All else being equal, quantity demanded of a good rises, as the price decreases.

Meaning of Demand, Definition and Determinants

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Five Determinants of Demand with Examples and Formula



1 Price of Good or Service



2 Income of Buyers



3 Prices of related goods or services



5 Expectations



4 Tastes of Consumers

$$qD = f$$

F = price, income, prices of related goods, tastes, expectations

Determinants of Market Demand

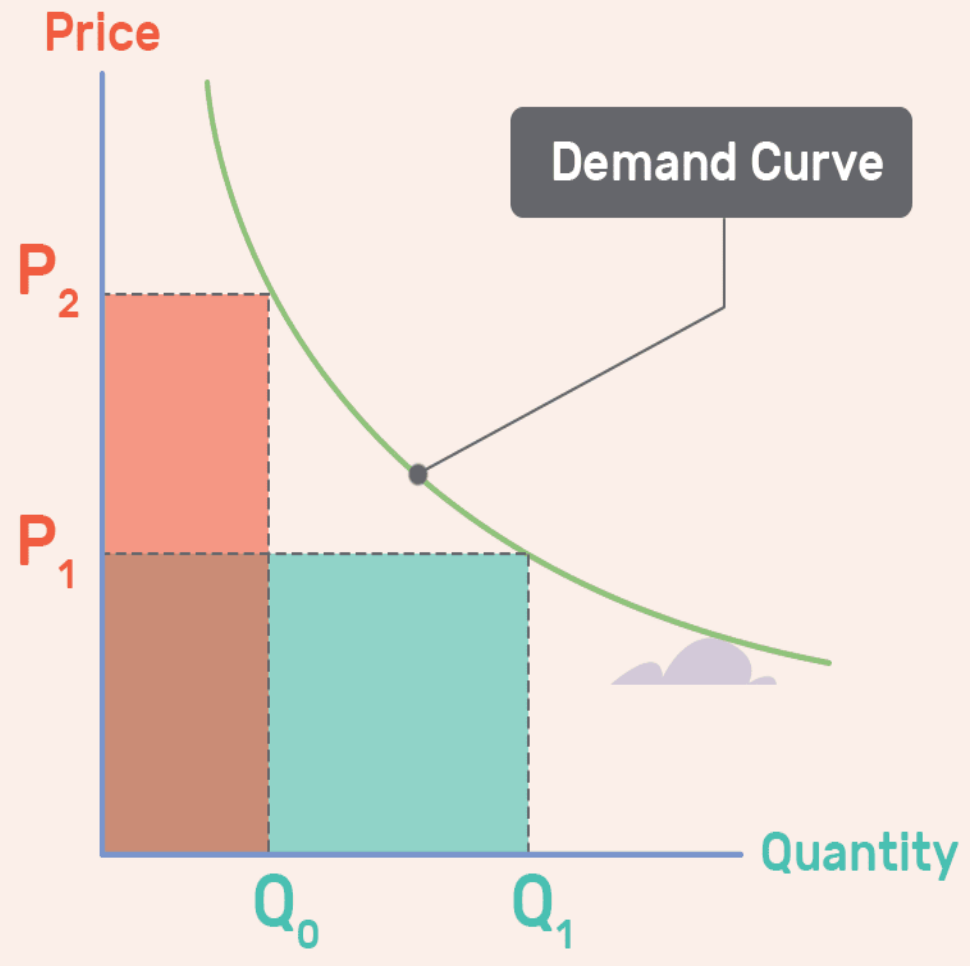


- 1) Price of the Product
- 2) Price of the Related Goods
- 3) Consumer's Income
- 4) Consumer's taste and preference
- 5) Advertisement Expenditure
- 6) Consumers' Expectations
- 7) Consumer-Credit Facility
- 8) Population of the Country
- 9) Distribution of National Income



Law OF Demand

- **The law of demand states, all other factors being constant, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa**
- **The law of demand says that the higher the price, the lower the quantity demanded, because consumers' opportunity cost to acquire that good or service increases, and they must make more trade offs to acquire the more expensive product**



Demand, Its Explanation, and Its Impact

Types of Demand

On the Basis of User

- Demand for Producer Goods
- Demand for Consumer Goods

On the Basis of Dependency on Other Commodity

- Autonomous Demand
- Derived Demand

On the Basis of Scale of Usage

- Company Demand
- Industry Demand

On the Basis of Impact Over Time

- Short Run Demand
- Long Run Demand

On the Basis of Durability

- Demand for Durable Goods
- Demand for Non-Durable Goods

What is Demand Forecasting?

- Demand Forecasting is predicting the future demand for products/services of an organization.
- To forecast is to estimate or calculate in advance
- Since forecasts are estimates and involve consideration of so many price and non-price factors, no estimate is necessarily 100% accurate.

Demand Function

Demand function shows the functional relationship between quantity demanded for a commodity and its various determinants.

Types of Demand Function

- Individual Demand Function
- Market Demand Function

Individual Demand Function

$$D_x = f(P_x, P_r, Y, T, E)$$

D_x = Demand for Commodity x

P_x = Price of Commodity x

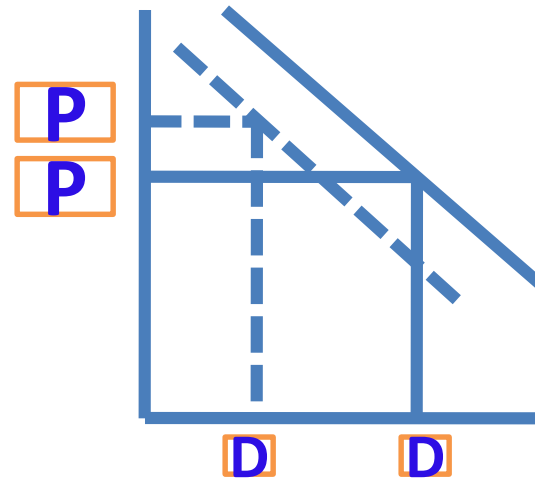
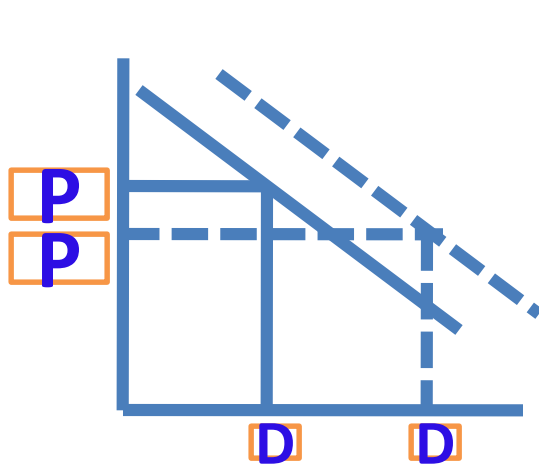
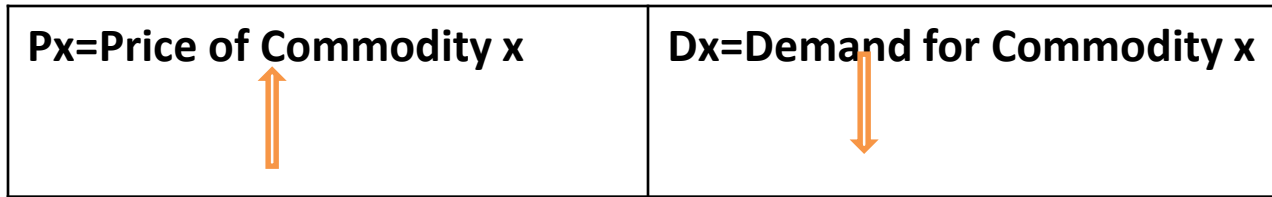
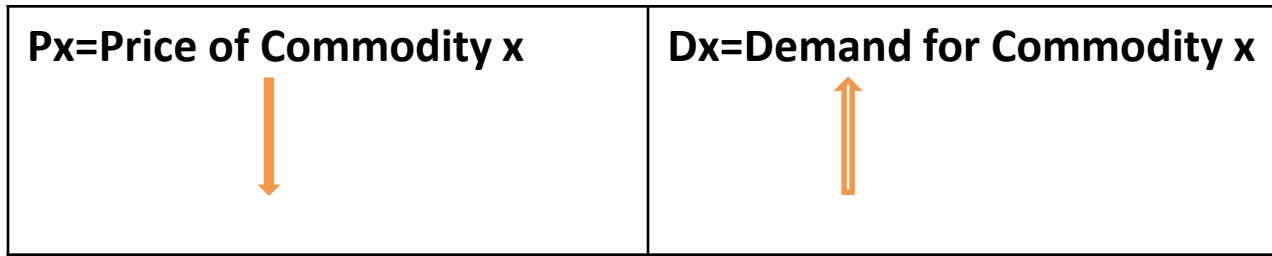
P_r = Price of related goods

Y = Income of the consumer

T = Tastes and Preferences

E = Expectation of Future Prices

Individual Demand Function

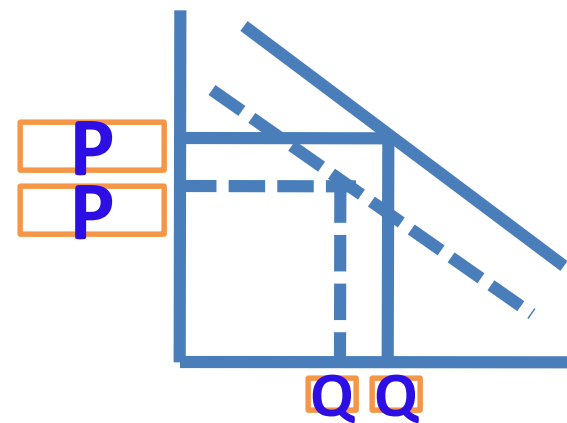
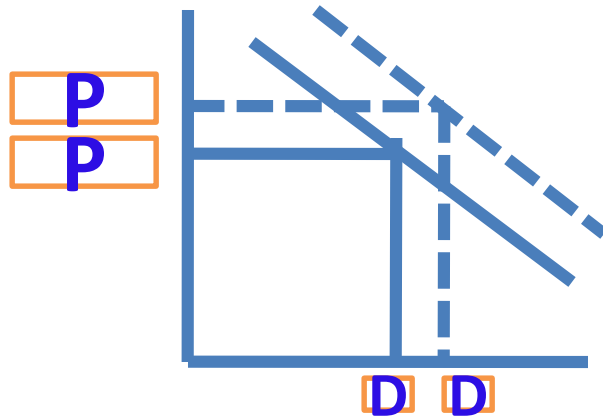
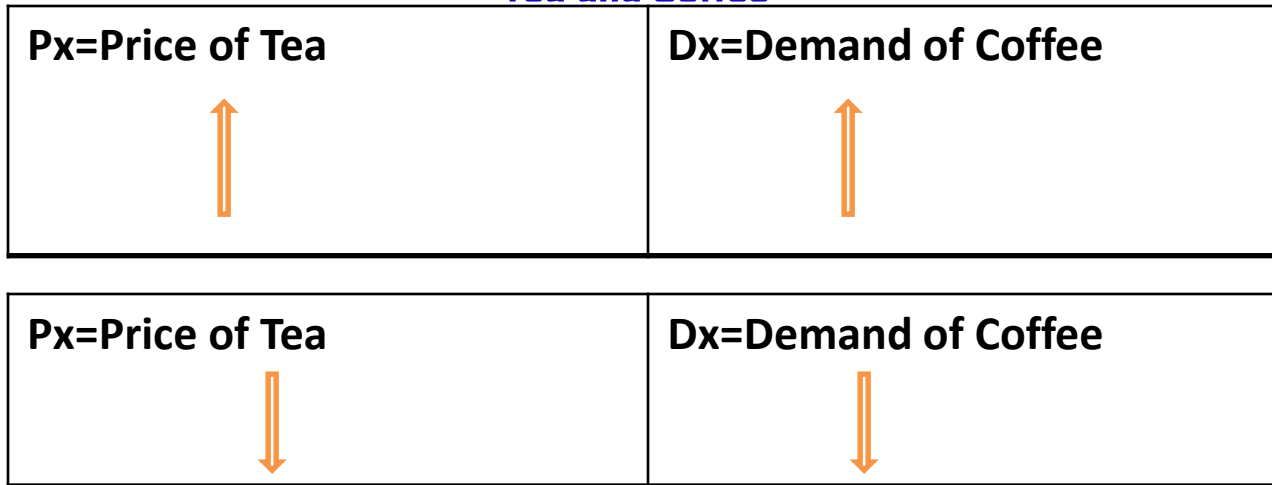


Individual Demand Function

a) Substitute Goods

b) Complementary Goods

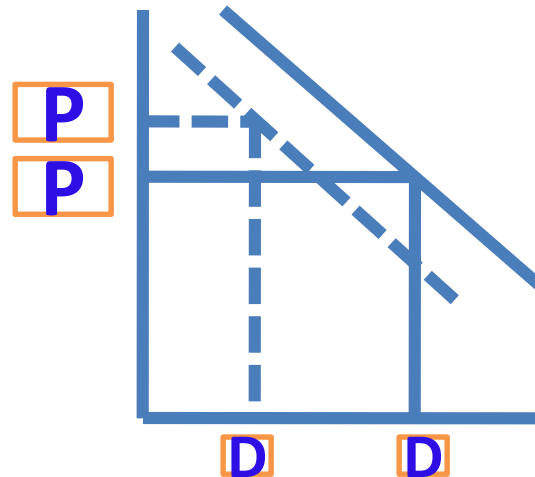
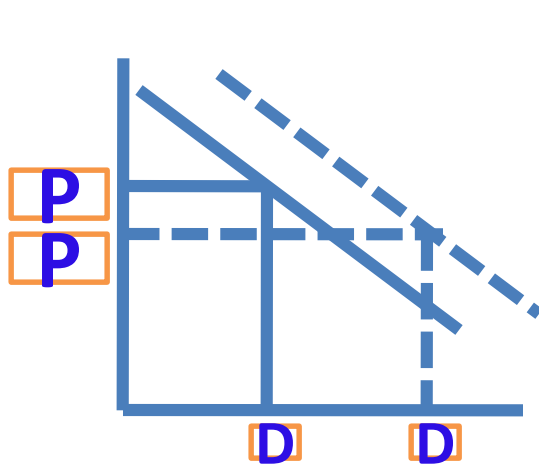
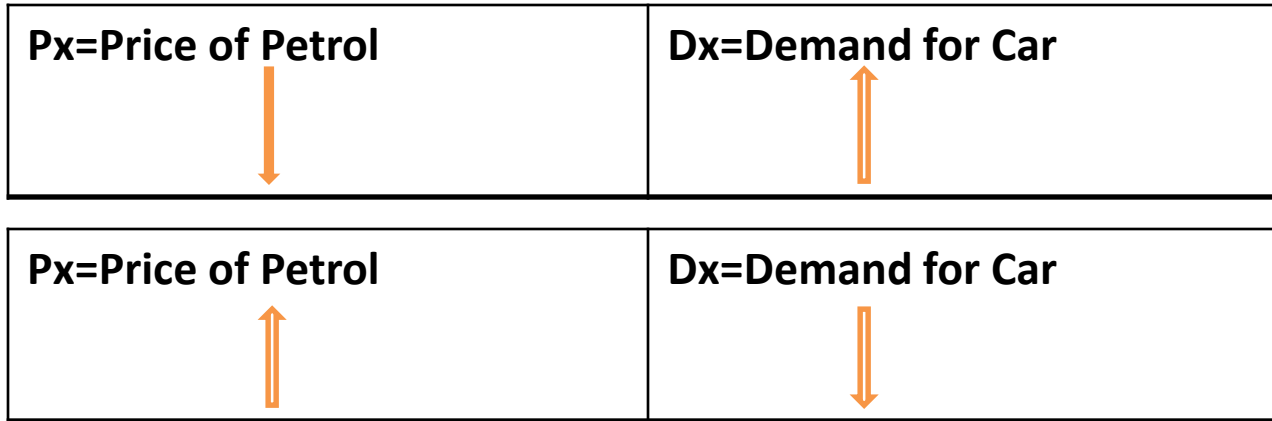
Tea and Coffee



Individual Demand Function

b) Complementary Goods

Car and Petrol



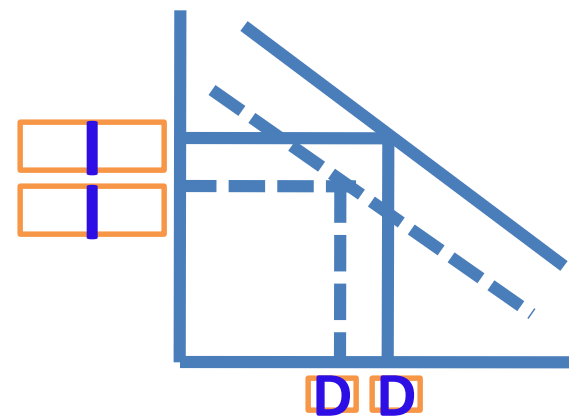
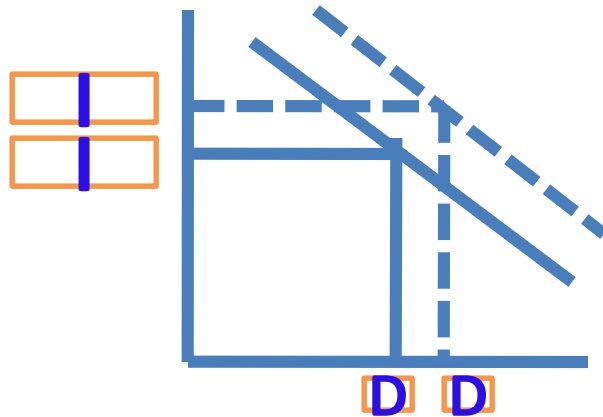
Individual Demand Function

Income of the Consumer (Y)

(A) Normal Goods

(B) Inferior Goods

$P_x = \text{Income}$ ↑	$D_x = \text{Demand of Normal Goods}$ ↑
$P_x = \text{Income}$ ↓	$D_x = \text{Demand of Normal Goods}$ ↓

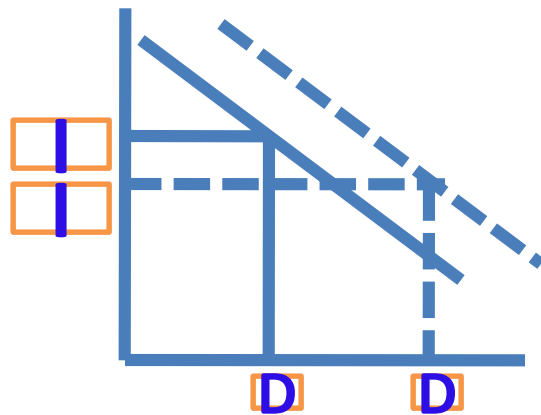


Individual Demand Function

Income of the Consumer (Y)

(B) Inferior Goods

Px=Income ↑	Dx=Demand of Inferior ↓
Px=Income ↓	Dx=Demand of Inferior ↑



Individual Demand Function

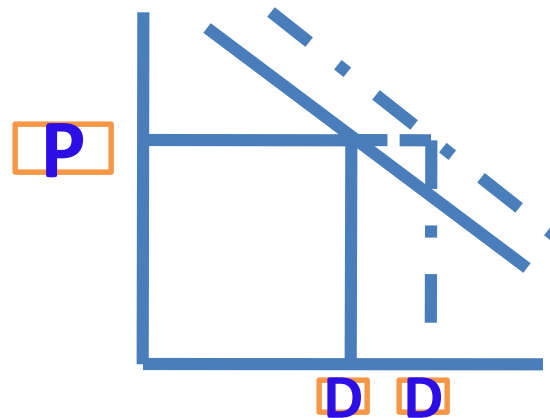
Tastes and Preferences

a) Favorable Change

b) Unfavorable Change

a) Favorable Change

<p>Price of Favorable Product</p> <p>↑</p>	<p>Demand of Favorable Product</p> <p>↑</p>
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Individual Demand Function

Tastes and Preferences

a) Favorable Change

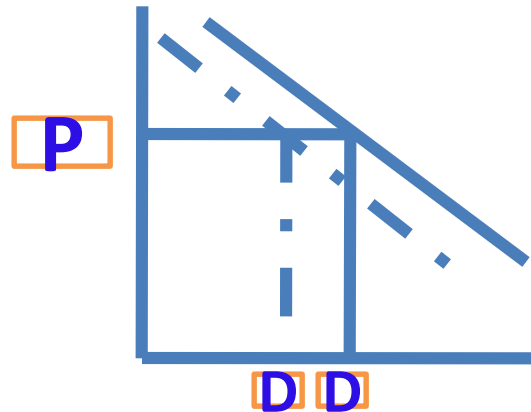
b) Unfavorable Change

a) Unfavorable Change

Price of Unfavorable Product



Demand of Unfavorable Product



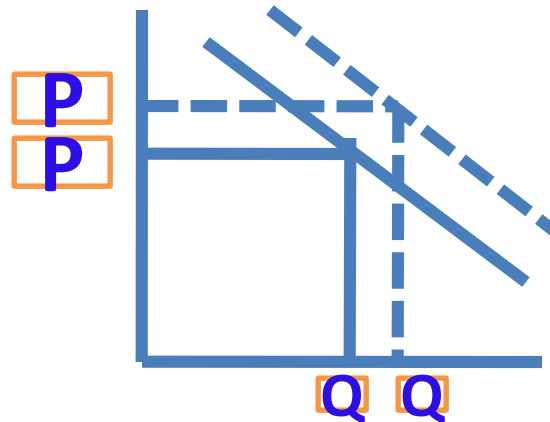
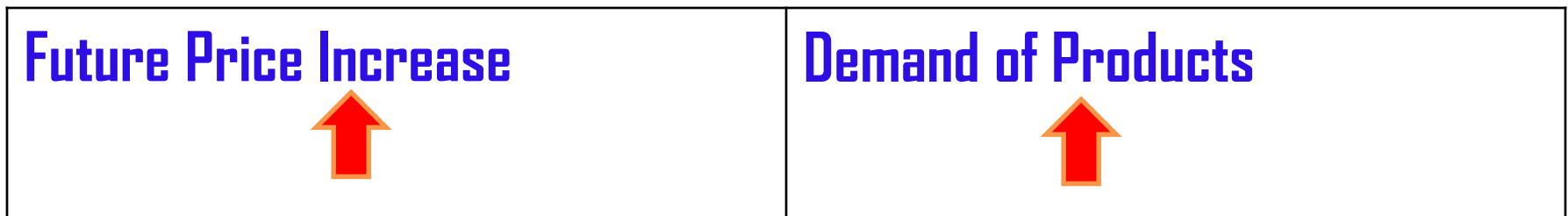
Individual Demand Function

Expectation of Future Price

a) Future Price Increase

b) Future Price Fall

a) Future Price Increase



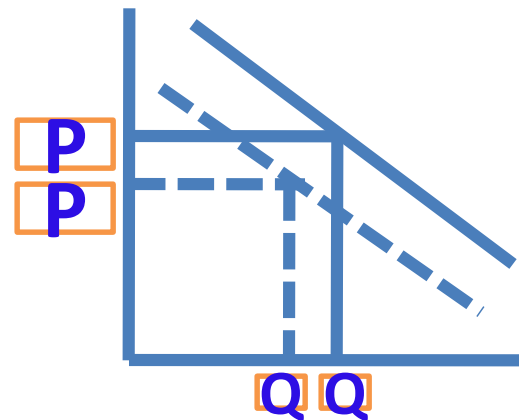
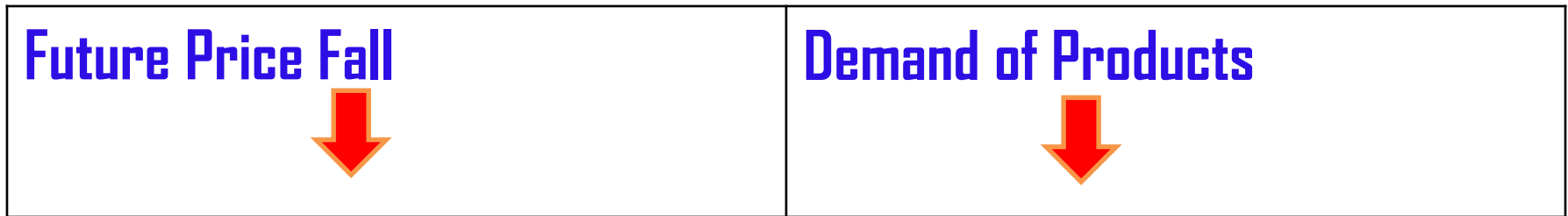
Individual Demand Function

Expectation of Future Price

a) Future Price Increase

b) Future Price Fall

b) Future Price Fall



Market Demand Function

$$D_x = f(P_x, P_r, Y, T, E, N, Y_d, G)$$

D_x = Demand for Commodity x

P_x = Price of Commodity x

P_r = Price of related goods

Y = Income of the consumer

T = Tastes and Preferences

E = Expectation of Future Prices

N = Population

Y_d = Distribution of Income





G = Government Policy

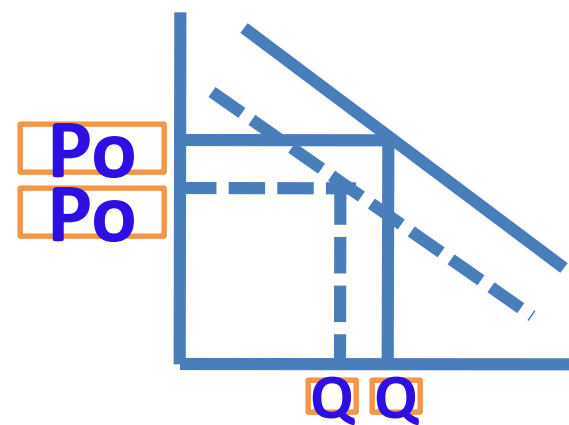
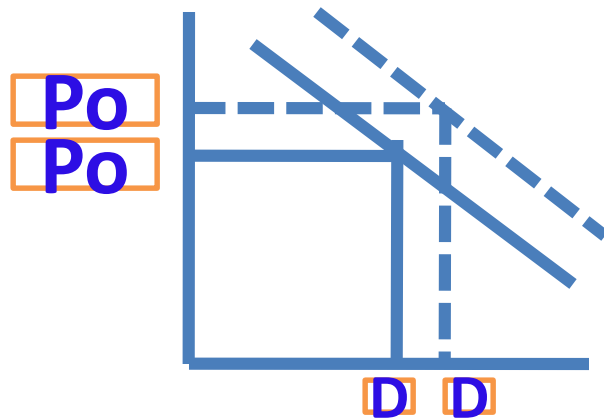
Market Demand Function

Population

a) Increase of Population

b) Decrease of Population

Population 	Demand 
Population 	Demand 



Market Demand Function

Distribution of Income

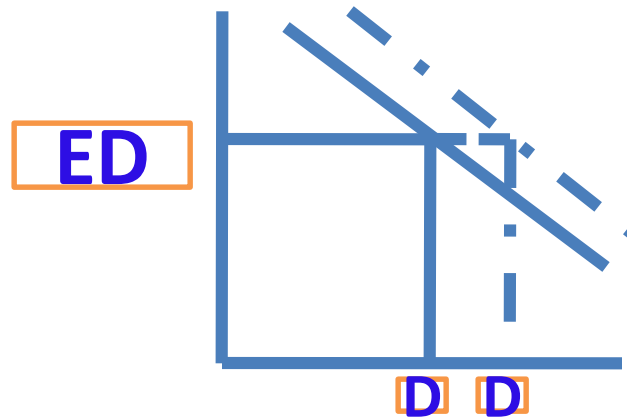
a) Equal Distribution

b) Unequal Distribution

a) Equal Distribution

If distribution is Equal

Demand 



Market Demand Function

Distribution of Income

a) Equal Distribution

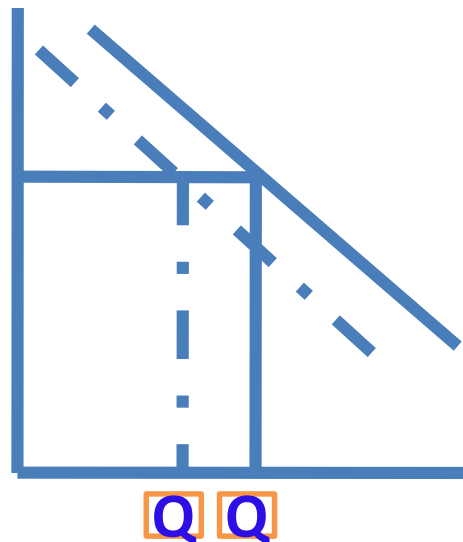
b) Unequal Distribution

a) Unequal Distribution

If distribution is Unequal

Demand ↓

UeD



Market Demand Function

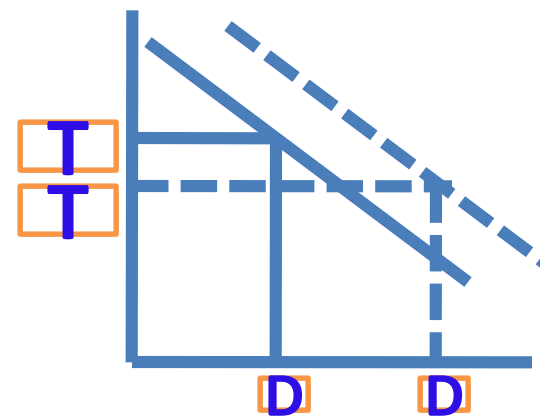
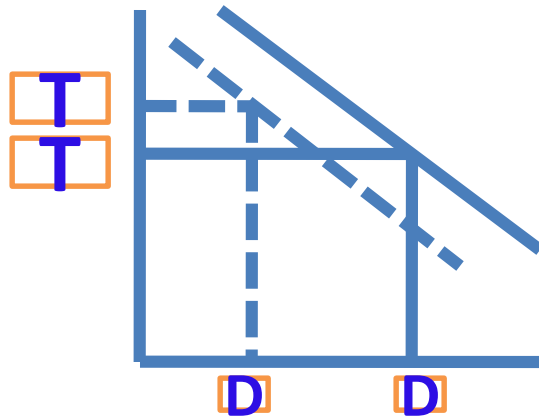
Government Policy

a) Tax

b) Rebate

Tax

Tax	↑	Price	↑	Demand	↓
Tax	↓	Price	↓	Demand	↑



Market Demand Function

Government Policy

a) Tax

b) Rebate

Rebate

Rebate ↑	Price ↓	Demand ↑
Rebate ↓	Price ↑	Demand ↓

