

THEORY OF DEMAND

1. **Demand:** -Quantity of a commodity that a consumer is able and willing to purchase in a given period and at a given price.

2. **Demand Schedule.** It is a tabular representation which shows the relationship between price of the commodity and quantity purchased.

3. **Demand Curve.** It is a graphical representation of demand schedule.

4. **Individual Demand.** Demand by an individual consumer.

5. Factors Affecting Individual Demand For a Commodity/Determinants of Demand

1. Price of the commodity itself
2. Income of the consumer
3. Price of related goods
4. Taste and Preference
5. Expectations of future price change

6. **Demand Function:** $D_x = f(P_x, Y, P_r, T)$

7. **Substitute Goods.** Goods which are used instead of another good. e.g., tea and Coffee. Increase in the price of one good causes increase in demand for other good. When the price of the coffee increases demand for tea also increases. (Substitute = a thing acting in place of another)

8. **Complementary Goods.** Goods which are to be used together to satisfy one want .E.g:- Petrol and Car Increase in the price of one good causes decrease in demand for other good.

When the price of petrol increases the demand for car decreases

(Complementary= combining so as to increase the quality of each other or another)

9. **Normal Good:** Goods which are having positive relation with income. It means when income rises, demand for normal goods also rises.

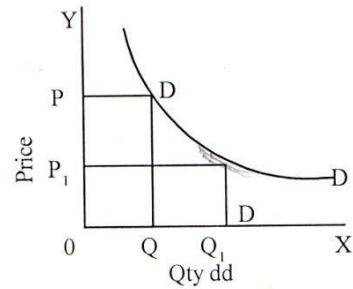
10. **Inferior Goods:** Goods which are having negative relation with income. It means less demand at higher income and vice versa. (Inferior=lower in rank or quality)

11. **Law of Demand:** Other things remains constant, demand of a good falls with

rise in price and vice versa .

Demand Schedule:-

PRICE (Rs.)	DEMAND (units)
1	100
2	80
3	60
4	40
5	20



1) **Changes in**

Demand :- They

are of two types:

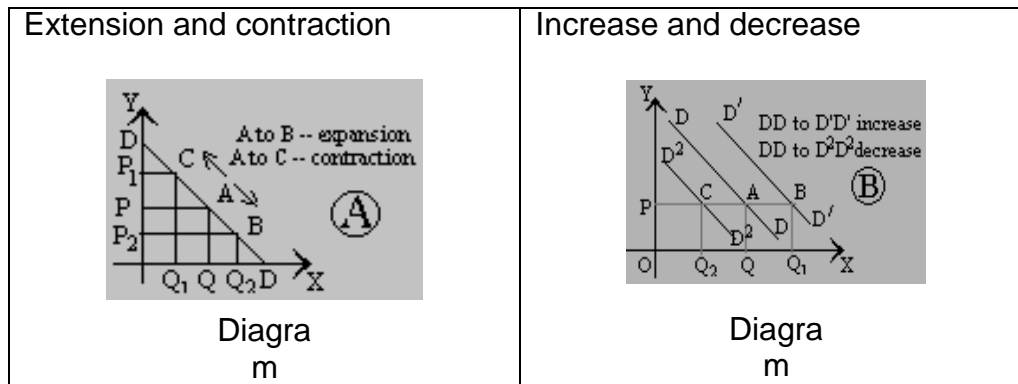
- 2) Change in Quantity Demanded (Movement along the same demand curve)
- 3) Change in Demand (Shifts in demand)

1) **Change in Quantity Demanded: -**

Demand changes due to change in price of the commodity alone, other factors remain constant; are of two types;

- A) Expansion of demand : More demand at a lower price
- B) Contraction of demand : Less demand at a higher price

Change in Quantity Demanded	Change in Demand
Due to price change	Due to other than price change
Movement will takes place	Shifting will takes place



2) **Change in demand:-**

Demand changes due to change in factors other than price of the commodity, are of two types:

- A) Increase in demand:- more demand due to change in other factors, price remaining constant.
- B) Decrease in demand:- less demand due to change in other factors, price remaining constant.

14. Causes of Increase in Demand

- 1. Increase in Income.
- 2. Increase/ favorable change in taste and preference.
- 3. Rise in price of substitute good.
- 4. Fall in price of complementary good.

Note: Increase in income causes increase in demand for normal good

15. Causes of Decrease in Demand:

- 1. Decrease in Income.
- 2. Unfavorable/Decrease in taste and preference
- 3. Decrease in price of substitute good.
- 4. Rise in price of complementary good.

Note: Decrease in income causes Decrease in demand for

normal good 15.Price Elasticity of Demand (Ed):

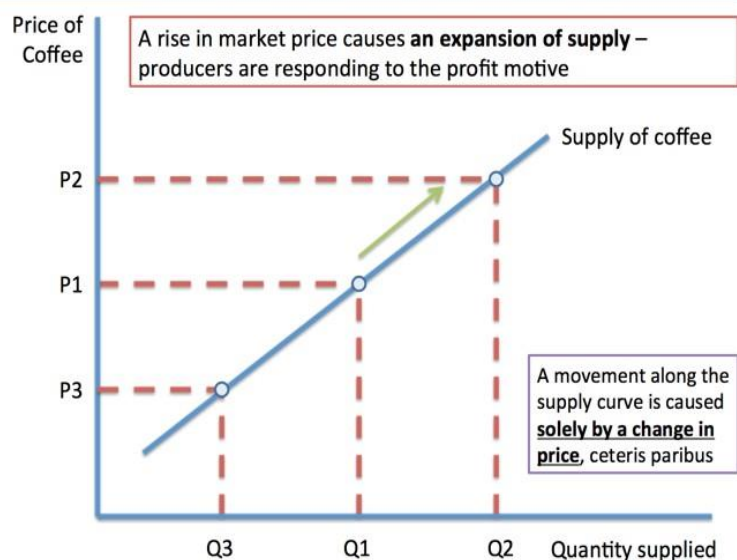
Refers to the degree of responsiveness of quantity demanded to change in its price. $Ed = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

CONCEPT OF SUPPLY

Supply= the amount of something which is available to be used

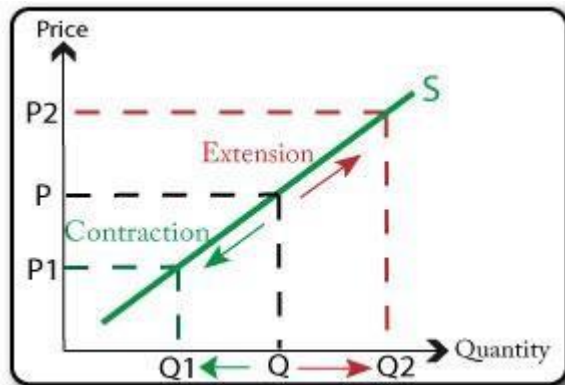
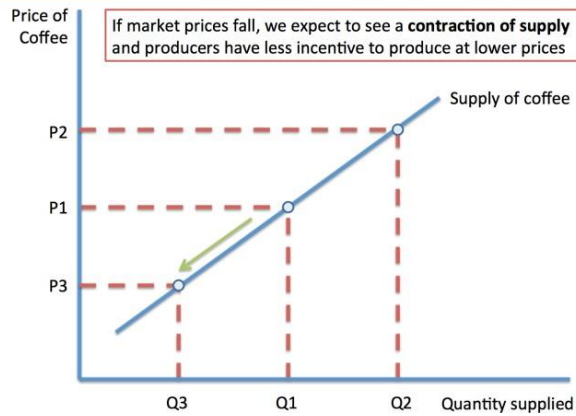
1. **Individual supply** refers to the quantity of a commodity that an individual firm is willing and able to offer for sale at each possible price during a given period of time.
2. **Market supply**: It refers to quantity of a commodity that all the firms are willing and able to offer for sale at each possible price during a given period of time.
3. **The supply curve**: It is the graphical representation of a supply schedule which shows the various quantities of a commodity that a producer is willing to sell at various levels of price.
4. **Supply Schedule** refers to a table which shows various quantities of a commodity that a producer is willing to sell at different prices during a given period of time.
5. **Determinants of supply** are a) state of technology b) input prices c) Government taxation policy.
6. **Law of supply**: It states direct relationship between price and quantity supplied keeping other factors constant.
7. **Movement along the supply curve**: It occurs when quantity supplied changes due to change in its price, keeping other factors constant.
8. **Shift in supply curve**: It occurs when supply changes due to factors other than price.
9. **Reasons for shift in supply curves**: Change in price of other goods, change in price of factors of production, change in state of technology, change in taxation policy.
10. **Expansion in supply**: It occurs when quantity supplied rises due to increase in price keeping other factors constant

Supply Curve – Higher Prices and Supply Expansion

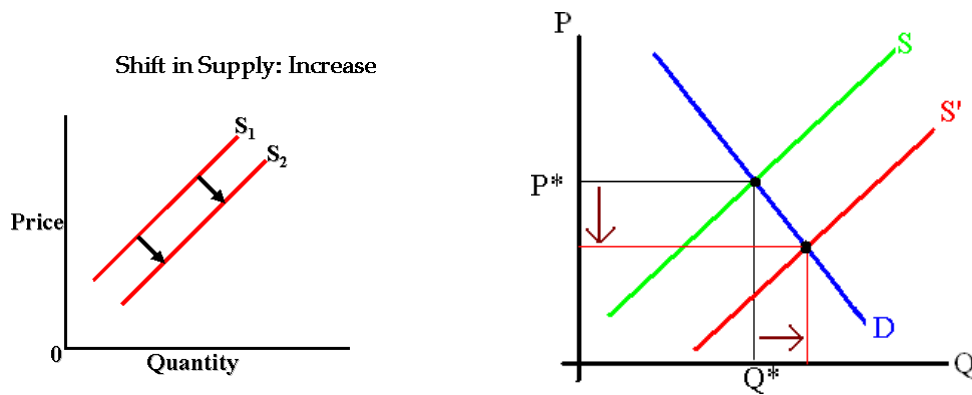


11. **Contraction of supply:** It means fall in the quantity supplied due to fall in price keeping other factors constant.

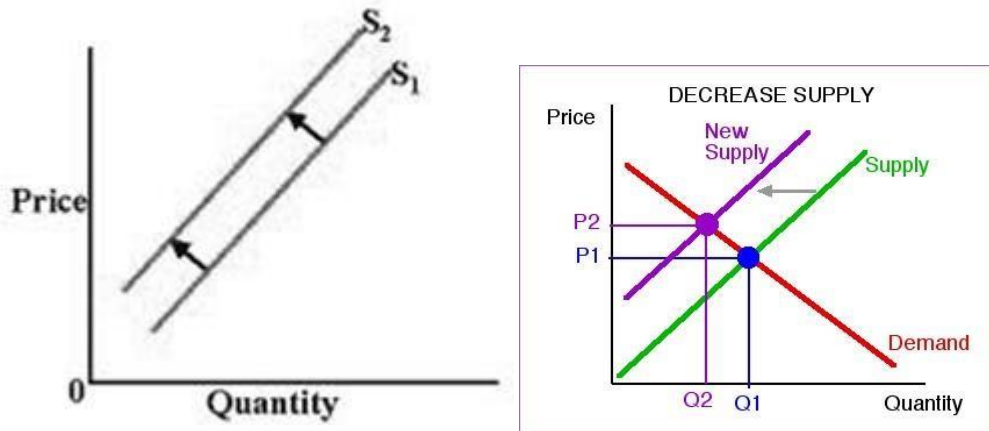
Supply Curve – Lower Prices and Supply Contraction



12 **Increase in supply** refers to rise in the supply of a commodity due to favorable changes in other factors at the same price.



12. **Decrease in supply:** It refers to fall in the supply of a commodity due to unfavorable change in other factors at the same price.



13. **Price elasticity of supply:** The price elasticity of supply of a good measures the responsiveness of quantity supplied to changes in the price of a good.

14. Price elasticity of supply = %change in qty supplied/ %change in price.

15. **Geometric method:**

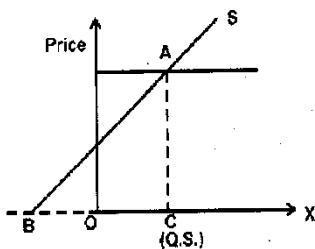


Fig. 1

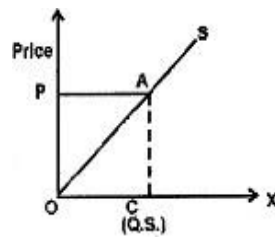


Fig.2

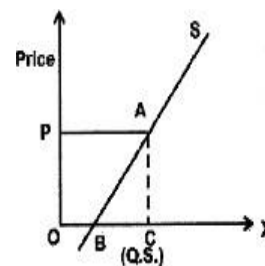


Fig.3

Es at a point on the supply curve = Horizontal segment of
the supply curve