

Micro economics- Demand

- ✓ We have seen that **human wants are unlimited** but the resources are limited and have alternative uses.
- ✓ So, want satisfying behavior of human beings in a resource constrained situation is the central theme of economics.

Consumption

- ✓ The want satisfying power of a good or service is called its **utility**.
- ✓ **Consumption** is destruction of utility while **production** is generation of utility.
- ✓ Production and consumption are the two sides of same coin.
- ✓ Demand and supply analysis helps to understand production and consumption of goods and services.

Demand

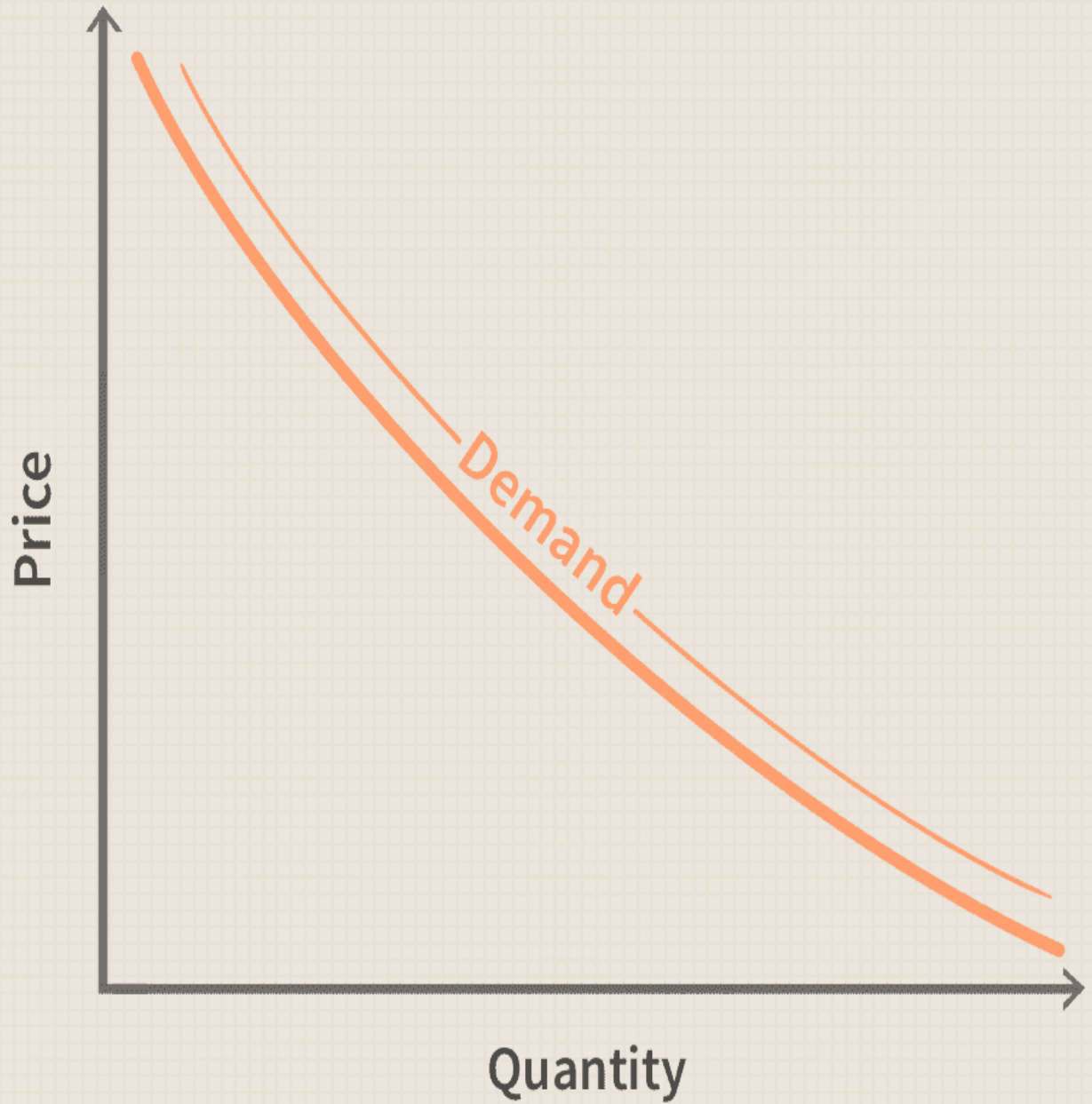
- ✓ **Demand** is defined as a desire for a **commodity or service** supported with necessary purchasing power and willingness to pay a price for it. Such a desire is called **effective demand**.
- ✓ Thus, all desires are not demands. Demand is expressed with reference to price and time only.
- ✓ **Demand without price or time has no relevance.**
- ✓ The demand should always be expressed in **terms of quantity at a particular price at a particular place.**
- ✓ For example, the demand for **rohu fish in Bhubaneswar** city may be 50 tons per day at a price of say Rs.150 per kg.

Demand Schedule

- ✓ Alfred Marshall introduced the concept of market schedule.
- ✓ According to him, market schedule is a table or statement showing how much of quantity is demanded or purchased in a particular market at different prices.
- ✓ The demand schedule of a person is called *individual market schedule* while that of a market is called *aggregate market demand schedule*.
- ✓ The sum of all individual market schedules is the aggregate *market demand schedule*.

Demand Curve

- ✓ When the demand schedule is plotted in a graph, **the demand curve obtained.**
- ✓ Generally, a demand curve slopes downwards indicating that other things remaining constant, a fall in price will cause an increase in demand and a rise in price will lead to a fall in demand.



- ✓ The downward sloping or in other words negatively sloped demand curve expresses the **inverse relationship between quantity demanded and price.**
- ✓ Rarely we see a demand curve having upward or positive slope. **Such a demand curve indicates the direct relationship between demand and price. In other words, more will be demanded at a higher price.**

Law of demand

- ✓ The law of demand reveals the **relationship between the price of a commodity and the quantity demanded of it in a market.**
- ✓ The law of demand states that *other things being equal, the quantity demanded of good increases with a fall in price and vice versa.*
- ✓ Thus, **quantity demanded varies inversely with price.**

Determinants of demand

- ✓ Many factors influence demand. **These are called determinates of demand.**
- ✓ Four important determinants of demand are:
 - i) Price of the good,
 - ii) Price of the substitute goods,
 - iii) Income of the consumer and
 - iv) Tastes and preferences of the consumer.