DEMAND ANALYSIS

MODULE 2

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Meaning of demand

- Desire backed by an ability and willingness to pay for a commodity in the market
- Number of units of a commodity that the customers are prepared to buy at a given price during a given period of time in a market.
- There should be a desire
- There should be an ability
- There should be a willingness.

UTILITY CONCEPT

TOTAL UTILITY

Total utility is the sum of all utilities which a person obtains by consuming a certain number of units of a commodity during a given period

Marginal utility

Marginal utility is the additional utility obtained from the consumption of an additional unit of the same commodity

Law of diminishing marginal utility states that the marginal utility obtained from the consumption of a commodity goes on diminishing when a person consumes more and more units of ansame commodity

No. of apple consumed	Total utility	Marginal utility	price
1	40	40	20
2	76	36	20
3	106	30	20
4	128	22	20
5	140	12	20
6	140	0	20
7	124	-16	20
8	92	-32	20

ASSUMPTION

- Commodity should be identical
- Rational human being
- No time gap in consumption
- Price is constant
- Utility is measurable

Exceptions or limitation to the law

- The law does not operate in case of money, alcohol, reading literature and rare collections.
- Marginal utility increases when there is change in other peoples stock

Application of the law of diminishing marginal utility

1. Taxation policy of government

2. helps in planning

3.increase social welfare

4.Downward slope of demand curve

5. A tool for decision

Law of demand

Law of demand states that there is a negative relationship between the price of a good and the quantity demanded , holding other factors constant .

Assumptions to the law of demand

1. income of buyers should remain constatnt

2. the taste , habit and preference of the buyers do not change

3.no change in price of related goods, substitute goods and complementary goods

4.no change in price of the good

5. no change in number of buyers

6.No shortage in supply of the commodity.

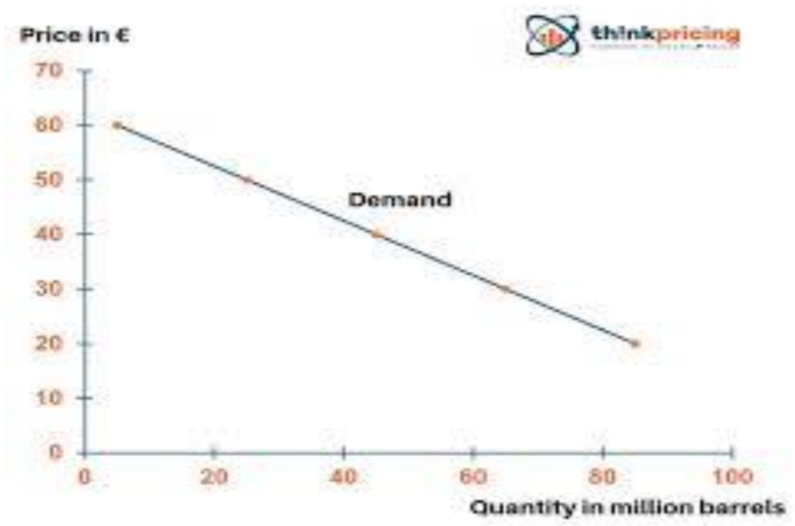
Demand schedule

When the inverse relation between price of a commodity and its quantity demanded at various prices is presented in a tabular form , it is called demand schedule.

Demand curve

Demand curve is a graphical presentation of the inverse relationship between price and quantity demanded. When the demand schedule is presented in the form of graph we obtain demand curve

There are two types of demand curve – linear demand curve and non linear demand curve



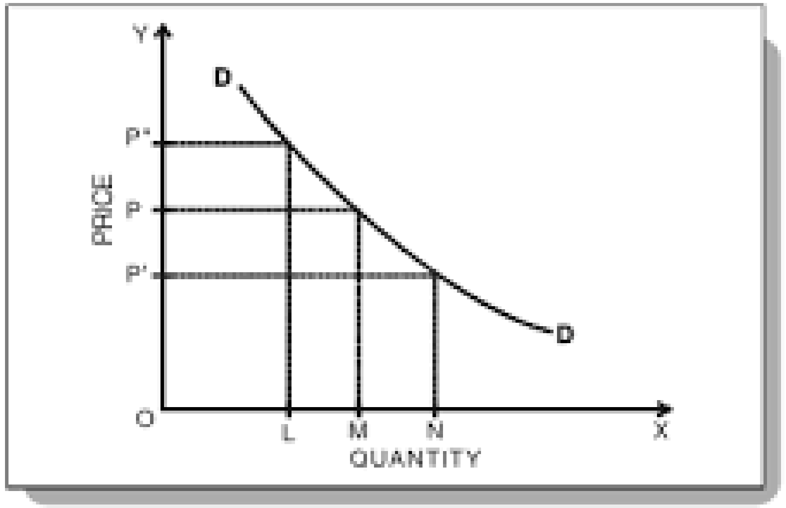


Fig. 1

Reasons for the law of demand

- Income effect
- Substitution effect
- Law of diminishing marginal utility
- Change in number of buyers
- Various uses of a comodity

Limitations to the law of demand

- Inferior goods or Giffen goods
- Prestige goods
- Consumer Expectations
- Consumers Misconceptions
- Change in fashion

Determinants of demand

- Price of the product
- Consumer income
- Price of the related good
- Amount spent on advertisement
- Consumer preference
- Consumer expectations

- Number of buyers in the market
- Money supply
- Taxation policy
- Seasonal goods

TYPES OF DEMAND

1. Direct demand and derived demand
2. Individual demand and market demand
3. Company demand and industry demand

Demand forecasting

The process of making objective assessment of demand for the product during a given future period in order to evolve the effective production plan for that period

Need for Demand forecasting

- Production planning
- Capital investment decision
- Advertising and promotional expenditure decision
- Inventory management

- Macro economic planning
- Launching of a new product