

CAFOUNDATION_PAPER4_PART I BUSINESS ECONOMICS

CHAPTER-2 UNIT-I LAW OF DEMAND & ELASTICITY OF DEMAND (I)

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MEANING OF DEMAND

Demand' refers to the quantity of a good or service that consumers are willing and able to purchase at various prices during a period of time.

Demand in Economics is something more than desire to purchase though desire is one element of it.

Effective Demand for a Thing Depends on

Desire

**Means to
Purchase**

**Willingness
to Use
Those
Means for
That
Purchase**

Two Things are to be Noted about Quantity Demanded

The Quantity Demanded is Always Expressed at a Given Price.

- i.e., At different prices different quantities of a commodity are generally demanded.

Quantity Demanded is a Flow.

- We must express demand as so much per period of time i.e., per day, per week etc.

DETERMINANTS/FACTORS AFFECTING DEMAND

Price of the Commodity (Inverse Relation)

Price of Related Commodities (Depends on Type of Related Goods)

Disposable Income of the Consumer (Depends on Nature of the Commodity)

Tastes and Preference of Consumers (Direct Relation)

Consumers' Expectations

Other Factors (Size & Composition of Population, Distribution of Income, Consumer Credit Facility, Govt. Policies etc.)

LAW OF DEMAND (BY- Prof. Alfred Marshall)

“Ceteris Paribus, there is an inverse relationship between price and quantity demanded.”

Law of Demand/Law of Supply is irreversible in nature.

Law of Demand/Law of Supply is qualitative in nature

Law of Demand can be Expressed Through

Demand Function

Demand Schedule

Demand Curve

Demand Equation

Individual Demand Schedule

Individual Demand Curve

Market Demand Schedule

Market Demand Curve

Rationale for the Law of Demand: (why does demand curve slopes downward to right?)

Substitution Effect

Income Effect

**Law of
Diminishing
Marginal Utility**

**Several Uses of
Commodity**

**Number of
Consumers**

EXCEPTIONS OF LAW OF DEMAND

Conspicuous Goods/Snob Appeal/Veblen Effect/Prestige Goods

Impulsive Purchases

Giffen Goods

Conspicuous Necessities

Future Expectation about Prices

Ignorance Effect

Speculative Goods

CHANGE IN QUANTITY DEMANDED/MOVEMENT ALONG THE DEMAND CURVE

- **Ceteris Paribus**
- **Demand changes due to change in price of the commodity**
- **There is upward or downward movement on demand curve**
- **It has two forms:**
 - (i) Expansion in Demand**
 - (ii) Contraction in Demand**

CHANGE IN DEMAND/SHIFT IN DEMAND CURVE

- **Price of the commodity remains constant**
- **Demand changes due to change in any other factor**
- **There is rightward or leftward shift in demand curve**
- **It has two forms:**
 - (i) Increase in Demand**
 - (ii) Decrease in Demand**

ELASTICITY OF DEMAND

“Elasticity of demand is defined as the responsiveness of the quantity demanded of a good to changes in one of the variables on which demand depends.”

OR

“Percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends.”

TYPES OF ELASTICITY OF DEMAND

**Price
Elasticity
of
Demand**

**Income
Elasticity
of
Demand**

**Cross
Elasticity
of
Demand**

**Advertiseme
nt Elasticity
of Demand**

TYPES/DEGREES OF PRICE ELASTICITY OF DEMAND

Perfectly Inelastic Demand ($E_p=0$)

Inelastic Demand ($E_p < 1$)

Unit Elastic Demand ($E_p=1$)

Elastic Demand ($E_p > 1$)

Perfectly Elastic Demand ($E_p = \infty$)

METHODS OF PRICE ELASTICITY OF DEMAND

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graph TD; A[METHODS OF PRICE ELASTICITY OF DEMAND] --> B[Percentage/Proportionate Method]; A --> C[Point Method]; A --> D[Total Outlay Method]; A --> E[Arc Method];
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Percentage/Proportionate Method

Point Method

Total Outlay Method

Arc Method

DETERMINANTS OF PRICE ELASTICITY OF DEMAND

Availability of Substitutes

More Substitutes- Highly Elastic Demand

Less Substitutes- Low Elastic Demand

Position of a Commodity in a Consumer's Budget

Greater Proportion Spent- More Elastic Demand

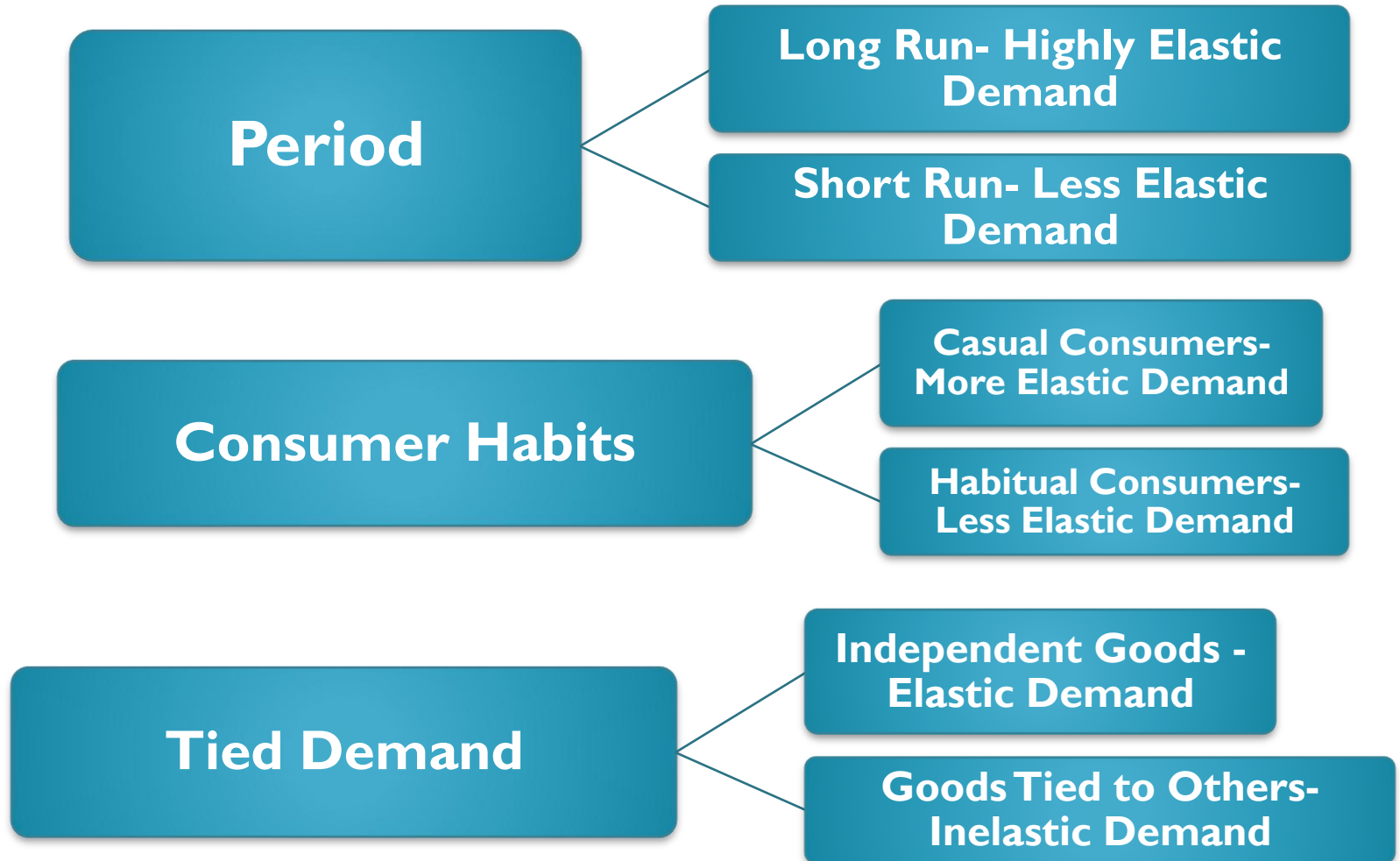
Lesser Proportion Spent- Less Elastic Demand

Nature of the Need that Commodity Satisfies

Luxury Goods- Elastic Demand

Necessary Goods- Inelastic Demand

DETERMINANTS OF PRICE ELASTICITY OF DEMAND



DETERMINANTS OF PRICE ELASTICITY OF DEMAND

Number of Use

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graph LR; A[Number of Use] --- B[More Possible Uses- Highly Elastic Demand]; A --- C[Less Possible Uses- Less Elastic Demand];
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The diagram illustrates the relationship between the number of uses of a product and its price elasticity of demand. A central box labeled 'Number of Use' branches into two outcomes: 'More Possible Uses- Highly Elastic Demand' and 'Less Possible Uses- Less Elastic Demand'.

More Possible Uses- Highly Elastic Demand

Less Possible Uses- Less Elastic Demand



THANK YOU