

Grade 8

Subject: Economics

Topic: Demand

Define Demand.

Demand is the quantity of a good or service that consumers are **willing and able to buy** at a **given price in a given time period**

What is effective Demand?

Demand is different to desire! Effective demand is when a desire to buy a product is backed up by an ability to pay for it

What is Latent Demand?

Latent demand exists when there is willingness to buy among people for a good or service, but where consumers lack the purchasing power to be able to afford the product.

What are the factors affecting demand?

These factors are as follows:

1. Price of the Product:

Demand for a commodity depends on its price. As price rises, for a normal good, demand falls and vice-versa. However, there are exceptions, i.e., for Giffen goods, as price rises demand also rises.

2. Income of the Consumer:

A key determinant of demand is the level of income i.e., the higher the level of income the higher the demand for a given commodity. Consumer's income and quantity demanded are generally related positively.

3. Prices of Related Goods:

Consumption choices are also influenced by the alternative options available to users in the relevant market place. Market information regarding alternative products, quality, convenience and dependability all influence choices.

4. Consumer's Tastes and Preferences:

Demand for a product is also affected by the tastes and preferences of the consumers. As tastes and preferences shift from one commodity to the other, demand for the first commodity reduces and that of the other rises.

5. Expectation of Future Prices:

The current demand of a product also depends on its expected price in future. If future price is expected to rise, its present demand immediately increases because the consumer has a tendency to store it at low prices for his future consumption. If, however the price of a product is expected to fall then he has a tendency to postpone its consumption and as a result the present demand would also fall.

6. Economic Conditions:

The demand for commodities also depends upon prevailing business conditions in the country. For, example- during the inflationary period, more money is in circulation and people have more purchasing power.

What is a Demand Function?

Demand function shows the relationship between quantity demanded for a particular commodity and the factors influencing it. It can be either with respect to one consumer or to all the consumers in the market.

$$q = f(P, Y, Pr, T)$$

Where q stands for quantity demanded, P stands for the price of the commodity in question, Y stands for the income of the consumer, Pr indicates prices of the related commodities and T denotes the Tastes of the consumer and f stands for function. But in practice the three of these four variables remain constant. And hence the demand function takes the form of-

$$q = f(P)$$

Define law of demand.

Ceteris Paribus, there is an inverse relationship between the price of a good and its quantity demand.

- As prices fall, more of a product is demanded
- If price rises, less of the product is demanded

What is meant by ceteris paribus assumption?

Many factors affect demand. When drawing a demand curve, economists assume all factors are held constant except one – the price of the product itself. Ceteris paribus allows us to isolate the effect of one variable on another variable.

What is Individual Demand Schedule?

It represents the demand of an individual' for a commodity at different prices at a particular time period. E.g.

Price in dollars	Quantity of oranges in Kgs.
15	2
12	3
9	4
6	5
3	6

What is a demand curve?

The demand curve is a graphic statement or presentation of the relationship between product price and the quantity of the product demanded. It is drawn with price on the vertical axis of the graph and quantity demanded on the horizontal axis.

Demand curve does not tell us the price. It only tells us how much quantity of goods would be purchased by the consumer at various possible prices. E.g for the above schedule it can be drawn as:

