DEMAND AND LAW OF DEMAND

Q1) Give the meaning of demand? Give its determinants

Ans → Demand is that quantity of goods which a person is willing to buy at a given price. There should be five inherent elements in demand:

a) Desire for the goods.
b) Sufficient resources to buy the goods.
c) Willingness to spend.
d) Given price.
e) Given time period.

1. Utility of the Goods: Utility means want-satisfying power of a commodity. It is a subjective factor which varies from person to person.

2. Income Level: Income level directly affects demand. Higher the level of income, higher will be the demand and lower the level of income, lesser will be the demand.

3. Distribution of wealth: Distribution of wealth also affects demand. If the distribution of wealth in society is unequal, then

Luxurious goods will be demanded by affected section of society.

4. Price of the Goods: Price of the goods directly affects the demand for it. At a lower price, demand will become high and vice-versa.

5. Price of Related Goods: Related goods are of two types:

a) Substitute Goods: Those goods which can be used in place of each other. e.g., Sugar-Gur, Tea-Coffee, etc.

b) Complementary Goods: Those goods which are used together., e.g., Car-Petrol, Ink-Pen, Bread-Butter, etc.
In case of substitutes, changes in price of a goods affects demand of other goods in same direction, but in case of complementary goods, price change of one goods changes demand of other goods in the reverse direction. ~~of one goods changes demand of other goods in the reverse~~

6. Taste, fashion, etc: These factors also affect

demand, when any particular goods is in fashion its demand will definitely increase.

7. Expected future change in price: Government regulation, natural calamities, possibility of war, etc. affects demand of goods.

Q2 what is demand schedule and demand curve.

Ans → demand schedule :— Demand curve shows various combination of quantity of goods demanded by an individual consumer at different prices.

demand curve :— By representing market demand schedule on graph. we obtain market demand curve. It represents demand of goods at different price for all the consumers in the market.

Q3 what do you understand by substitute goods and complementary goods explain with example.

Ans (i) substitutes : substitutes are such products which have the capacity to satisfy the same needs. i.e., they can be used for the same purpose in place of each others. Eg. Tea - Coffee. In this case, when price of one goods increases, other things being equal, demand of substitutes also increases. Eg., price of coffee increases, then demand of tea also increases.

ii) complementary Goods : These goods are used together for satisfying a particular want, e.g., Scooter - petrol. If price of scooter increases, then demand of its complementary goods is affected although price of petrol remains unchanged. In this way, inverse relation exists between price and quantity demanded of complementary goods.

2

Q4 Explain the term desire and demand?

Ans → Desire : Desire is whatever we will to the or something we want, but those have sufficient money or income to afford it.

Example — x is having ₹ 8,000 and want buy a phone of worth ₹ 10,000 is called desire. (want something but can't

Demand: Demand is whatever you wish or want And is affordable with your current income

Example – Y is having ₹12,000 and wants to buy a phone of worth ₹10,000. this is called demand. (want something which he can afford within his income)

Q3) What is law of demand? What do you mean by other thing being equal.

Ans → The law of demand states that, other things being equal, the amount demanded increases with a fall in price and diminishes with a rise in price.

Law of demand is based on few assumptions. The assumption are:

(1) Consumer's ~~in based~~ income should remain constant.

(2) Consumer's taste, nature, etc, should remain constant

(3) Price of related goods should remain constant

(4) Consumer remains unknown with new substitutes.

(5) There is no possibility of price change in future.

Diagram

Q. Why do demand curve slope downward?

Ans → Demand curve slope downwards towards right due to the following reasons;

i) Law of diminishing Marginal utility: According to this law, marginal utility of a good diminishes as an individual consumes more units of a goods. In other words, as consumer takes more units of a good, the extra utility or satisfaction that he derived from an extra unit of the goods goes on falling.

ii) Substitution Effect: Substitution effect is due to inverse relation between price and demand of a goods. Substitution effect is the change in quantity demanded of a commodity resulting from a change in its price relative to the prices of other commodities, the consumer's real income or satisfaction level being held constant.

iii) Income Effect: When price of a goods decreases, real income or purchasing power of consumer increases value to which he can maintain his previous limit of consumption with less expenditure.

3