

# DEMAND AND SUPPLY

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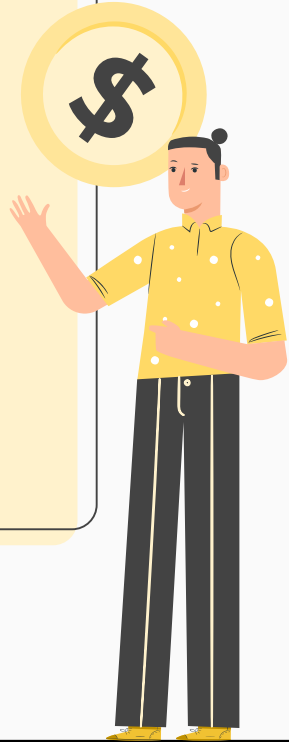


## DEFINATION OF DEMAND

The **ability and willingness to buy** a specific quantity of goods in a given period of time at a particular price, ceteris paribus.

Demand = willingness to buy + ability to buy  
(The consumer must have the money to buy the product)

Desire, want & wish = Desire, without the ability to purchase



# CLASSIFICATION OF GOODS AND SERVICES

## FREE GOODS

Gifts of Nature

No Cost of Production

e.g. Sunlight, river, water

## PUBLIC GOODS

Benefit to everyone

e.g. Public clinics, schools

## ECONOMICS GOODS & SERVICES

Tangible / Intangible

Involves Cost of Production

e.g. Books, Clothes

e.g. Medical care, Legal  
service

# LAW OF DEMAND

Other things being equal, the quantity demanded of a good falls when the price of the good rises

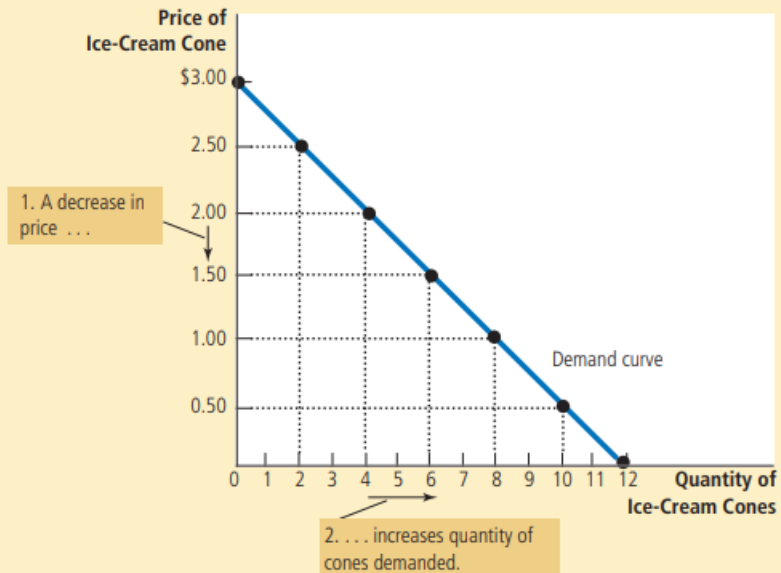


## FIGURE 1

### Catherine's Demand Schedule and Demand Curve

Price of Ice-Cream Cone	Quantity of Cones Demanded
\$0.00	12 cones
0.50	10
1.00	8
1.50	6
2.00	4
2.50	2
3.00	0

The demand schedule is a table that shows the quantity demanded at each price. The demand curve, which graphs the demand schedule, illustrates how the quantity demanded of the good changes as its price varies. Because a lower price increases the quantity demanded, the demand curve slopes downward.

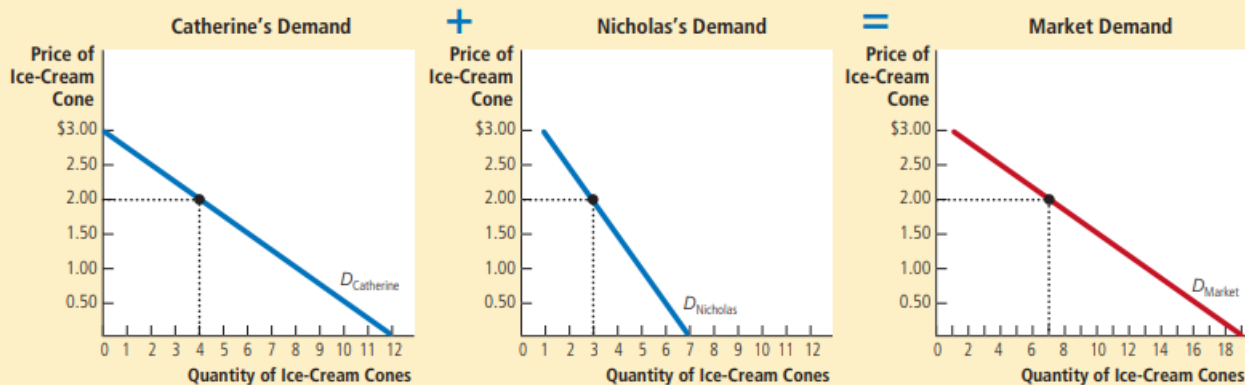


The quantity demanded in a market is the sum of the quantities demanded by all the buyers at each price. Thus, the market demand curve is found by adding horizontally the individual demand curves. At a price of \$2.00, Catherine demands 4 ice-cream cones and Nicholas demands 3 ice-cream cones. The quantity demanded in the market at this price is 7 cones.

## FIGURE 2

### Market Demand as the Sum of Individual Demands

Price of Ice-Cream Cone	Catherine		Nicholas		Market
\$0.00	12	+	7	=	19 cones
0.50	10		6		16
1.00	8		5		13
1.50	6		4		10
2.00	4		3		7
2.50	2		2		4
3.00	0		1		1



# DETERMINANTS OF DEMAND

## INTERNAL FACTORS

1. Price of goods
2. Service policies or terms of payment
3. Profit Margin

## EXTERNAL FACTORS

1. Price of related goods
2. Consumer's income
3. Consumer's fashion, taste & preference
4. Population or number of buyers
5. Expectation about future prices
6. Advertisements
7. Festive Season and Climate
8. Level of taxation
9. Supply of Money in circulation



## TABLE 1

<b>Variable</b>	<b>A Change in This Variable . . .</b>
Price of the good itself	Represents a movement along the demand curve
Income	Shifts the demand curve
Prices of related goods	Shifts the demand curve
Tastes	Shifts the demand curve
Expectations	Shifts the demand curve
Number of buyers	Shifts the demand curve

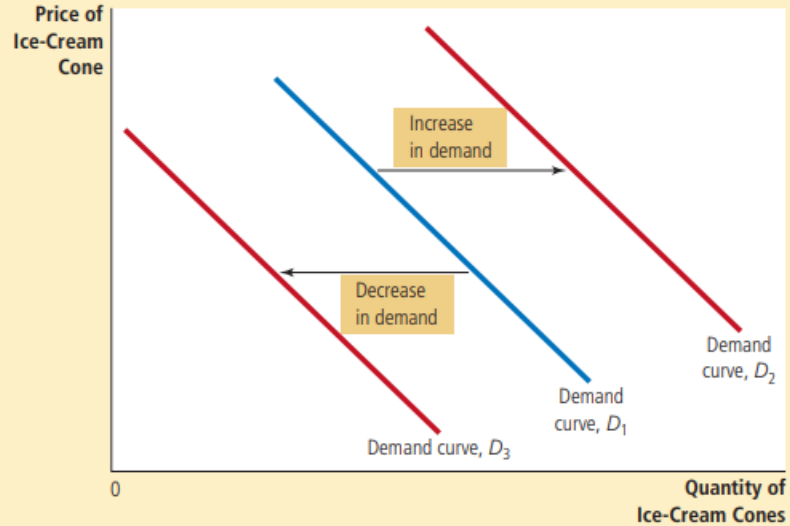
### **Variables That Influence Buyers**

This table lists the variables that affect how much consumers choose to buy of any good. Notice the special role that the price of the good plays: A change in the good's price represents a movement along the demand curve, whereas a change in one of the other variables shifts the demand curve.

## FIGURE 3

### Shifts in the Demand Curve

Any change that raises the quantity that buyers wish to purchase at any given price shifts the demand curve to the right. Any change that lowers the quantity that buyers wish to purchase at any given price shifts the demand curve to the left.

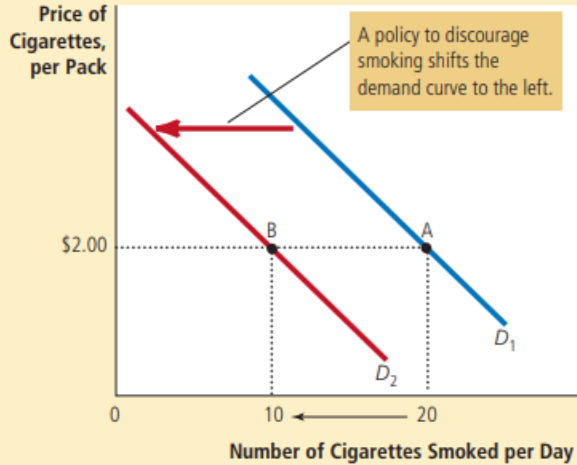


## FIGURE 4

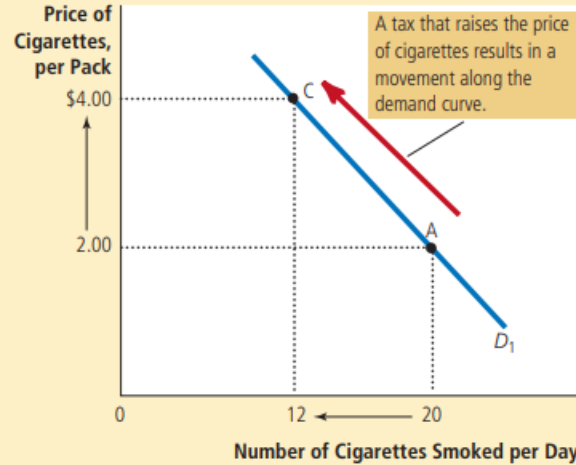
### Shifts in the Demand Curve versus Movements along the Demand Curve

If warnings on cigarette packages convince smokers to smoke less, the demand curve for cigarettes shifts to the left. In panel (a), the demand curve shifts from  $D_1$  to  $D_2$ . At a price of \$2.00 per pack, the quantity demanded falls from 20 to 10 cigarettes per day, as reflected by the shift from point A to point B. By contrast, if a tax raises the price of cigarettes, the demand curve does not shift. Instead, we observe a movement to a different point on the demand curve. In panel (b), when the price rises from \$2.00 to \$4.00, the quantity demanded falls from 20 to 12 cigarettes per day, as reflected by the movement from point A to point C.

(a) A Shift in the Demand Curve



(b) A Movement along the Demand Curve



# Exception: Demand

- Giffen Goods
- Status Symbol Goods
- Speculation
- Emergencies
- Highly-Priced Goods