Demand

Meaning of demand

– Desire backed by ability and willingness to pay
– Quantity of a commodity that a consumer wants to purchase at a certain price during a certain time period.

Mere desire is not sufficient for demand. The consumer must have ability to pay and willingness to pay for fulfillment of desire. For demand desire, ability and willingness to pay are required. In absence of one or more of them demand doesn’t arise. To express demand the following things must be specified

– Quantity
– Price
– Time duration
– Ability to pay
– Desire
– Willingness to pay

Example

– If a beggar has the desire for a big apartment then that is not demand as he is unable to pay
– A man with salary of Rs 25000 a month, wants to buy vegetables of Rs. 35 for a week then that is called demand

Differences between demand and desire

Serial no	**Demand**	**Desire**
1	It is the desire or want backed by ability and willingness to pay.	It is simply human want
2	It is limited	It is unlimited
3	It is always for the things available in the market	It may be for intangible and imaginary things too

4	It has a market value	It may or may not have market value
5	Ability and willingness to pay is mandatory.	Ability and willingness to pay are not mandatory.
6	It is expressed with reference to price and time duration	It is not expressed with time and price duration.

Law of Demand

The law of demand states that the demand is inversely related to price other things remaining constant .It means if price rise demand decreases and if price fall demand increases. The law of demand operates only if factors determining demand other than prices are constant. It means prices of complementary goods, substitutes, income, taste of consumer, population, etc should be constant.

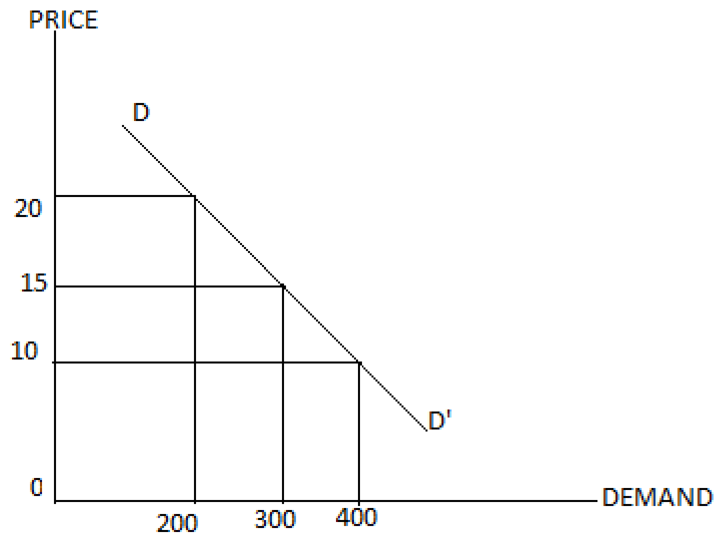
Law of demand can be explained with the help of demand schedule and demand curve.

Demand Schedule

Price(in Rs)	Demand(per week)
10	400
15	300
20	200

From the above table we see that at a higher price less is the demand and at a lower price higher is the demand.

Demand Graph



In the above figure the demand curve is downward sloping. It shows that demand decreases with rise in price and increases with fall in price.

Assumptions

- Price of related goods is constant
- Income and taste of consumers is constant
- Size of population is constant
- No change in climatic conditions

<u>Exceptions to the law of demand</u>

Giffen Goods

Giffen Goods is a concept that was introduced by Sir Robert Giffen. These goods are goods that are inferior in comparison to luxury goods. However, the unique characteristic of Giffen goods is that as its price increases, the demand also increases. And this feature is what makes it an exception to the law of demand.

The Irish Potato Famine is a classic example of the Giffen goods concept. Potato is a staple in the Irish diet. During the potato famine, when the price of potatoes increased, people spent less on luxury foods such as meat and bought more potatoes to stick to their diet. So as the price of potatoes increased, so did the demand, which is a complete reversal of the law of demand.

Veblen Goods

The second exception to the law of demand is the concept of Veblen goods. Veblen Goods is a concept that is named after the economist Thorstein Veblen, who introduced the theory of "conspicuous consumption ". According to Veblen, there are certain goods that become more valuable as their price increases. If a product is expensive, then its value and utility are perceived to be more, and hence the demand for that product increases.

This happens mostly with precious metals and stones such as gold and diamonds and luxury cars such as Rolls-Royce. As the price of these goods increases, their demand also increases because these products then become a status symbol.

The expectation of Price Change

In addition to Giffen and Veblen goods, another exception to the law of demand is the expectation of price change. There are times when the price of a product increases and market conditions are such that the product may get more expensive. In such cases, consumers may buy more of these products before the price increases any further. Consequently, when the price drops or may be expected to drop further, consumers might postpone the purchase to avail the benefits of a lower price.

There are also times when consumers may buy and store commodities due to a fear of shortage. Therefore, even if the price of a product increases, its associated demand may also increase as the product may be taken off the shelf or it might cease to exist in the market.

Necessary Goods and Services

Another exception to the law of demand is necessary or basic goods. People will continue to buy necessities such as medicines or basic staples such as sugar or salt even if the price increases. The prices of these products do not affect their associated demand.

Change in Income

Sometimes the demand for a product may change according to the change in income. If a household’s income increases, they may purchase more products irrespective of the increase in their price, thereby increasing the demand for the product. Similarly, they might postpone buying a product even if its price reduces if their income has reduced. Hence, change in a consumer’s income pattern may also be an exception to the law of demand.