YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 3

DEMAND FUNCTION

CLASS- F.Y.BMS/F.Y.BAF

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Meaning of Demand

- It represents a desire for a commodity backed by the ability and willingness to purchase it.

- It is a measurable concept always with reference to a price and time period.

- Demand can be expressed as an individual's demand for a product or market demand for a product.

The Law of Demand

- The demand for a commodity depends upon many factors.

- The most important factor determining demand is the price of the commodity.

- However, there are many other factors that will have an influence on demand .
- Eg- Price of other similar tractors, cost of fuel, Interest rate of loan, income level of farmer, advertising of the tractor, etc.

CONTINUED…

- If we assume that all the factors, except the price of the tractor, remains the same, we can then derive a functional relationship between the demand for the factor and its price alone.
- This relationship is explained with the help of the **Law of Demand** which was first propounded by **Alfred Marshall.**

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- The Law of Demand states that other factors being constant, price and quantity demanded of any commodity are inversely related to each other.

- When the price of a commodity rises, the demand for the commodity will fall.

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- The Law of Demand explains how the consumer's choice-behaviour changes when there is a change in the price of a commodity.

- In a market situation, if other factors affecting demand for a commodity does not change, but only the price changes, then a consumer is likely to buy more of a commodity when its price falls and less of a commodity when its price rises.

- This behaviour of a consumer is a commonly observed behaviour and the law of demand is based on such observed behaviour.

The Law of Demand and Marketing Strategy

- When sellers announce **“discount sales”** or offers like **“buy 1 get 1 free”**, they are applying the **Law of demand** to their marketing strategy.

- However, in real life situations, price is not the only dynamic factor.

- There may be changes in other factor too. Like, a rival firm may also announce a similar “discount sales” or products may go out of fashion and people may not buy more even at the discounted price.

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- These are the real world challenges that firms have to face to overcome the limitations of the law of demand.

- Such challenges are met through effective advertising and promotion and carrying out product innovation along with price variations.

The Law of Demand is based on the following assumptions:

- No change in consumer's income
- No change in price of related goods
- No change in taste
- No uncertainty about the future
- No change in the size of population

CONTINUED…

- No change in advertisement
- No change in government policy
- No change in natural factors

Exceptions to the Law of Demand :

- Giffen goods
- Snob value
- Price Expectations
- Emergencies
- Fashion

Determinants of Demand :

- Price (Px)
- Income (y)
- Prices of related commodities
- Taste and preferences
- Size of population

CONTINUED…

- Consumer Expectations
- Expenditure on advertising and promotion
- Cost of credit or interest rate
- Social factors

PRICE AND INCOME SUBSTITUTION EFFECTS

1. Income Effect:-

- When the price of a commodity changes, it results in a change in the consumer's real income or purchasing power.
- If a price of a commodity falls, the consumer immediately experiences a rise in in his/her purchasing power and will buy more of the commodity.
- Vice-versa
- This is known as income effect.
- Income effect can be either positive or negative depending on the nature of the commodity.

PRICE AND INCOME SUBSTITUTION EFFECTS

3. Price Effect :-

- Price effect = Income effect + substitution effect

a) Normal Goods:- More income more purchase & vice – versa.

b) Inferior Goods:- Less purchase when real income increases and switch to superior goods.