

MODULE - 6

Consumer's Behaviour



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DEMAND

You have already studied in the previous lessons that goods and services have the power to satisfy our wants. We have unlimited wants. Most of them can be satisfied by goods and services. Therefore, we purchase goods and services from the market. Now a days the market is flooded with various types of goods. We cannot purchase all these goods since we have limited money. So, we have to make a choice between what to purchase and what not to purchase. We decide to purchase a good or a combination of goods depending on the amount of money we have and the price we have to pay. All these things are related with the study of **Demand**.



OBJECTIVES

After completing this lesson, you will be able to:

- explain the meaning of demand;
- differentiate between desire, want and demand;
- differentiate between individual demand and market demand;
- explain the factors that affect individual demand and market demand for a commodity;
- explain the Law of Demand;
- identify the reasons of law of demand as well as exception to law of demand;
- prepare a hypothetical individual demand schedule and draw an individual demand curve;
- prepare a market demand schedule and draw a market demand curve; and
- Differentiate between movement along the demand curve and shift in the demand curve.

15.1 MEANING OF DEMAND

It is commonly observed that people alternatively use the terms desire, want and demand. In economics, they are not same. Desire means merely a wish to have a commodity. It is simply craving for a commodity. So any body can desire anything, irrespective of whether that thing is really available or not. On the otherhand, want is the desire which is backed by ability and willingness to pay. So every desire is not a want. Desire becomes a want only when the person is in a position to satisfy it.

By demand for a commodity we **mean** the desire for the commodity backed by purchasing power and the willingness to spend. When a consumer wishes to consume a commodity and has also the necessary purchasing power i.e. income along with willingness to spend, he is said to have demand for the commodity.

Demand for a commodity refers to the quantity of a commodity that a consumer is willing to buy at a given price during a given period of time.

The definition of demand highlights three essential elements of demand:

- (i) price of the commodity
- (ii) quantity of the commodity
- (iii) period of time: the time period may be a day, a week, a month, a year or any other period.

Let us consider the following statements:

- (i) Mr. Akshay purchased 2kgs. apples last week.
- (ii) Mr. Akshay purchased 2Kgs. apples when the price of apples was ₹ 60 per kg.
- (iii) Mr. Akshay purchased 2Kgs. apples last week when the price of apples was ₹ 60 per Kg.

The first two statements are incomplete in context of demand. In the first statement the price of apples is not stated. In the second statement period of time is not stated. The third statement is complete as it states the quantity of the apples, the price of apples and the time period during which the said quantity is demanded.

15.2 INDIVIDUAL DEMAND AND MARKET DEMAND

Individual demand for a commodity refers to the quantity of the commodity that an individual buyer is willing to buy at a given price during a given period of time. In the example given in the beginning of the lesson Akshay's demand for apple is the individual demand for apple.



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But Akshay is not the only buyer of apple in the market. There may be other persons who may demand apples in the market. Let us assume that besides Akshay there are three more buyers of apples in the market Rohit, Ritik and Ajai. Market demand for apples will be the sum of demand of all the buyers of apples at a given price during a given period of time. Suppose, when price of apples is ₹ 60 per Kg., Akshay buys 2 Kgs., Rohit buys 3 Kgs., Ritik buys 2.5 Kgs. and Ajai buys 1.5 Kgs. of apples during a week then market demand for apples will be $2 + 3 + 2.5 + 1.5 = 9$ kgs. at price ₹ 60 per kg.

Thus, **market demand** for a good means the total quantity of a commodity that all the buyers of the good are willing to buy at a given price over a given time period.



INTEXT QUESTIONS 15.1

1. What is meant by demand for a commodity?
2. What are the three essential elements of demand?
3. How does a desire differ from demand?
4. Distinguish between individual demand and market demand?

15.3 FACTORS AFFECTING INDIVIDUAL DEMAND FOR A COMMODITY

The factors that influence a consumer's decision to purchase a commodity are also known as determinants of demand. The following factors affect the individual demand for a commodity:

1. price of the commodity
2. price of related goods
3. income of buyer of the commodity
4. tastes and preferences of the buyer

1. Price of the Commodity

You must have observed that when price of a commodity falls, you tend to buy more of it and when its price rises, you tend to buy less of it, when all other factors remain constant ('other things remaining the same'). In other words, **other things remaining the same, there is an inverse relationship between the price of a commodity and its quantity demanded by its buyers.** This statement is in accordance with law of demand which you will study in the later part of this lesson.

Price of a commodity and its quantity demanded by its buyers are inversely related only when 'other things remain the same'. So, 'other things remaining the same' is an assumption when we study the effect of changes in the price of a commodity on its quantity demanded.

2. Price of Related goods

A consumer may demand a particular good. But while buying that good he/she also asks the price of its related goods.

Related goods can be of two types-

- (i) Substitute goods
- (ii) Complementary goods

While purchasing a good, prices of its substitutes and complements do affect its quantity purchased.

- (i) **Price of Substitute Goods: Substitute goods are those goods which can easily be used in place of one another for satisfaction of a particular want**, like tea and coffee. An increase in price of substitute good leads to an increase in demand for the given commodity and a decrease in price of substitute good leads to a decrease in demand for the given commodity. It means demand for a given commodity is directly affected by change in price of substitute goods. For example, if price of coffee increases, the demand for tea will rise as tea will become relatively cheaper in comparison to coffee.
- (ii) **Price of Complementary goods: Complementary goods are those goods which are used together to satisfy a particular want** like car and petrol. An increase in the price of complementary goods leads to a decrease in demand for the given commodity and a decrease in the price of complementary goods leads to an increase in demand for the given commodity. For example, if price of petrol falls then the demand for cars will increase as it will be relatively cheaper to use both the goods together. So, demand for a given commodity is inversely affected by change in price of complementary goods.

3. Income of the Buyer of Commodity

Demand for a commodity is also affected by income of its buyer. However, the effect of change in income on demand depends on the nature of the commodity under consideration.

In case of some goods like full cream milk, fine quality of rice (Basmati rice) etc, demand for these commodities increases when income of the buyer increases and demand for these commodities decreases when income of the buyer decreases. Such goods, whose demand increases with the increase in income of the buyer, are called **normal goods**. But there are some goods like coarse rice, toned milk etc.



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whose demand decreases when income of buyer increases and their demand increases when income of the buyer decreases. Such goods, whose demand decreases with the increase in income of the buyer, are called **inferior goods**. Suppose, a consumer buys 10 Kgs. of rice whose price is ₹ 25 per Kg. He cannot afford to buy better quality of rice because the price of such rice is ₹ 50 per Kg. The consumer is spending ₹ 250 per month on the purchase of rice. Now, if income of the consumer increases and he can afford ₹ 350 on purchase of 10 Kg. of rice. Now he can afford to buy some quantity of rice, say 6 Kgs., whose price is ₹ 25 per Kg. and may buy 4 Kgs. of rice whose price is ₹ 50 per Kg. Thus he will buy 10 Kgs. of rice by spending ₹ 350 per month.

Therefore, we may conclude that demand for normal goods is directly related to the income of the buyer but demand for inferior goods is inversely related to the income of the buyer.

4. Tastes and Preferences of the Buyer

The demand for a commodity is also affected by the tastes and preferences of the buyers. They include change in fashion, customs, habits etc. Those commodities are preferred by the consumers which are in fashion. So, demand for those commodities rises which are in fashion. On the other hand, if a commodity goes out of the fashion, its demand falls because no consumer will like to buy it.

15.4 FACTORS AFFECTING MARKET DEMAND FOR A COMMODITY

As stated earlier market demand is the total quantity of a commodity that all its buyers taken together are willing to buy at a given price during a given period of time. In addition to the factors affecting individual demand for a commodity, market demand is also influenced by the following factors:

(i) Number of Buyers in the Market(Population)

Increase in population raises the market demand, whereas decrease in population reduces the market demand for a commodity. Not only the size of population but its composition like age (ratio of males, females, children and old people in population) also affects the demand for a commodity. It is because of needs of children, young, old, male and female population differ.

(ii) Distribution of Income and Wealth

If the distribution of income and wealth is more in favour of the rich, demand for the commodities preferred by the rich such as comforts and luxuries is likely to be higher. On the other hand, if the distribution of income and wealth is more in favour of poor, demand for commodities preferred by the poor such as necessities will be more.

(iii) Season and Weather Conditions

This is generally observed that the demand for woollens increases during winter whereas, demand for ice creams and cold drinks increases during summer. Similarly, market demand for umbrellas, rain coats increases during rainy season.

**INTEXT QUESTIONS 15.2**

1. What are substitute goods? Give one example of substitute goods.
2. What are inferior goods? Give one example of inferior goods.
3. What are normal goods? Give one example of normal goods.

15.5 LAW OF DEMAND

We have already studied about the effect of change in price on demand for a commodity. The law of demand explains the relationship of price of a commodity and its quantity demanded, when all other factors affecting demand remain constant.

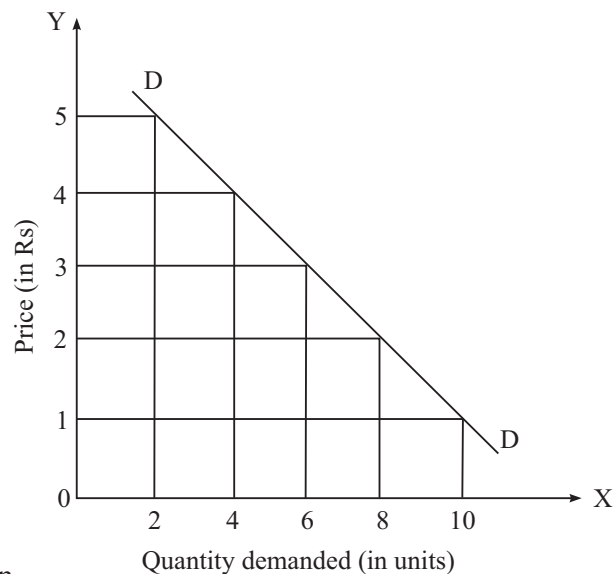
The law of demand states that **other things remaining same, quantity demanded of a commodity is inversely related to its price.** In other words, demand for a commodity rises when its price falls and its demand falls when price rises provided other factors remain unchanged.

The law of demand can better be explained with the help of table 15.1 and figure 15.1

Table 15.1

Price (In ₹)	Quantity Demanded (In Units)
1	10
2	8
3	6
4	4
5	2

As you see in table 15.1 when price of the commodity rises, quantity demanded decreases.

**Fig. 15.1**

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That is why the demand curve slopes downwards from left to right as shown in Fig. 15.1. Downward slope of demand curve shows the inverse relationship of price and quantity demanded of a commodity.

15.6 ASSUMPTIONS OF LAW OF DEMAND

In law of demand all other factors except price of the commodity are assumed to be constant. Therefore, we use the phrase 'other things remaining same'. This phrase is used to cover the following assumptions on which the law is based:

1. Prices of substitute goods do not change.
2. Prices of complementary goods do not change.
3. Income of the buyer remains the same.
4. There is no change in tastes and preferences of the buyer.

15.7 REASONS FOR OPERATION OF LAW OF DEMAND

Now we will try to explain why does a consumer purchase more quantity of a commodity at a lower price and less of it at a higher price or why does the law of demand operate i.e. why does the demand curve slope downwards from left to right. The main reasons for operation of law of demand are:

1. Law of Diminishing Marginal Utility

As you have studied earlier, law of diminishing marginal utility states that as we consume more and more units of a commodity, the utility derived from each successive unit goes on decreasing. The consumer will be ready to pay more for those units which provide him more utility and less for those which provide him less utility. It implies that he will purchase more only when the price of the commodity falls.

2. Income Effect

When price of a commodity falls, purchasing power or real income of the consumer increases which enables him to purchase more quantity of the commodity with the same money income. Let us take an example. Suppose you buy 4 ice creams when price of each ice cream is ₹ 25. If price of ice creams falls to ₹ 20, then with same money income you can buy 5 ice creams now.

3. Substitution Effect

When price of a commodity falls, it becomes comparatively cheaper as compared to its substitutes (although price of substitutes has not been changed). This will lead to rise in demand for the given commodity. For example, if coke and Pepsi

both are sold at ₹ 10 each and price of coke falls. Now coke has become relatively cheaper and will be substituted for Pepsi. It will lead to rise in demand for coke.

4. Change in Number of Buyers

When price of a commodity falls, some old buyers may demand more of the commodity at the reduced price and some new buyers may also start buying this commodity who were not in a position to buy it earlier due to higher price. This will lead to increase in number of buyers when price of the commodity falls. As a result demand for the commodity rises when its price falls.

5. Diverse Uses of a Commodity

Some commodities have diverse uses, like milk. It can be used for drinking, for sweet preparation, for ice cream preparation etc. If price of milk rises, its use may be restricted to important purpose only. This will lead to reduction in demand for other less important uses. When price of milk falls, it can be put to other uses also leading to rise in demand for it.

15.8 EXCEPTIONS TO THE LAW OF DEMAND

You have studied in law of demand that a buyer is willing to buy more quantity of a commodity at a lower price and less of it at a higher price. But in certain circumstances, a rise in price may lead to rise in demand. These circumstances are called Exceptions to the Law of Demand. Some important exceptions are:

1. Giffen Goods

Giffen goods are special type of inferior goods in which negative income effect is stronger than negative substitution effect. Giffen goods do not follow law of demand as their demand rises when their price rises. Examples of Giffen goods are jowar and bajra etc.

2. Status Symbol Goods

Some goods are used by rich people as status symbols, e.g. diamonds, gold jewellery etc. The higher the price, the higher will be the demand for these goods. When price of such goods falls, these goods are no longer looked at as status symbol goods and, therefore, their demand falls.

3. Necessities

Commodities such as medicines, salt, wheat etc. do not follow law of demand because we have to purchase them in minimum required quantity, whatever their price may be.



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4. Goods Expected to be Scarce

When the buyers expect a scarcity of a particular good in near future, they start buying more and more of that good even if their prices are rising. For example, during war, famines etc. people tend to buy more of some goods even at higher prices due to fear of their scarcity in near future.



INTEXT QUESTIONS 15.3

1. State the law of demand.
2. State any two assumptions of law of demand.
3. State any two exceptions of law of demand.

15.9 INDIVIDUAL DEMAND SCHEDULE

In law of demand you have studied that other things remaining same, quantity demanded of a commodity is inversely related to its price. This inverse relationship of price and quantity demanded by an individual buyer can also be explained with the help of a schedule. **Individual demand schedule shows different quantities of a commodity demanded by an individual buyer at different prices. Such a schedule is given in table 15.2.**

Table 15.2 Individual Demand for Apples

Price of Apples Per kg. (₹)	Quantity Demanded of Apples (per week) (In kgs.)
90	1
80	2
70	3
60	4
50	5

The above schedule shows that when price of apples is ₹ 90 per Kg. quantity demanded is 1 Kg. per week. But when price falls to ₹ 80, ₹ 70, ₹ 60 and ₹ 50 per Kg. quantity demanded increases to 2 Kgs., 3 Kgs., 4 Kgs. and 5 Kgs. per week respectively. **So, the demand schedule is a tabular statement of law of demand. Demand schedule shows different quantities of a commodity demanded at different prices in tabular form.**

15.10 INDIVIDUAL DEMAND CURVE

Demand curve is a diagrammatic presentation of law of demand. If we plot the individual demand schedule on the graph paper, we will get a curve which is called as individual demand curve. Individual demand curve is shown in Fig. 15.2.

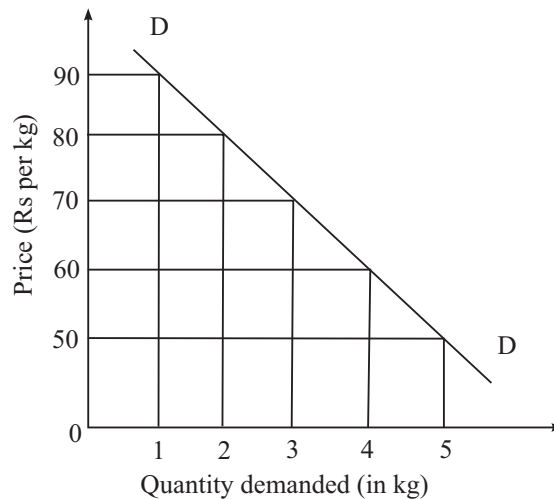


Fig. 15.2: Individual demand curve

As seen in the diagram, price is taken on Y-axis and quantity demanded on X-axis. Points A, B, C, E and F represent five combinations of price and quantity demanded of apples given in table 15.2. Point A shows that at the price of ₹ 90 per Kg. the quantity demanded of apples is 1 Kg. per week, Point B shows the quantity demanded is 2 Kgs. per week when the price is ₹ 80 per Kg. Similarly, the other combinations of price and quantities demanded of apples as given in table 15.2 are shown as points C, E and F. By joining these points individual demand curve for apples has been derived.

15.11 MARKET DEMAND SCHEDULE

As explained earlier, market demand is the total quantity of a commodity that all its buyers taken together are willing to buy at a given price during a given period of time. From the individual demand schedules of a commodity, we can prepare the market demand schedule of that commodity. We assume that there are only three buyers A, B and C of apples in the market. The demand schedules of these buyers are given in table 15.3.



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Table 15.3: Market Demand for Apples

Price of Apples	Quantity Demanded of Apples per week (In kgs.)			Market Demand of Apples per week (In kgs.)
	A	B	C	M.D. = A + B + C
90	1	3	2	1 + 3 + 2 = 6
80	2	5	3	2 + 5 + 3 = 10
70	3	7	4	3 + 7 + 4 = 14
60	4	9	5	4 + 9 + 5 = 18
50	5	11	6	5 + 11 + 6 = 22

When price of apples is ₹ 90 per Kg. A demands 1 Kg. of apples, B demands 3 Kgs. of apples and C demands 2 Kgs. of apples. Thus market demand for apples at a price of ₹ 90 per Kg. is 1 + 3 + 2 = 6 Kgs. per week. Likewise, market demand for apples can be obtained at other prices also as shown in table 15.3.

15.12 MARKET DEMAND CURVE

Just as we plotted the individual demand curve on a graph paper, if we now plot the market demand schedule given in table 15.3, we will get the following figure 15.3.

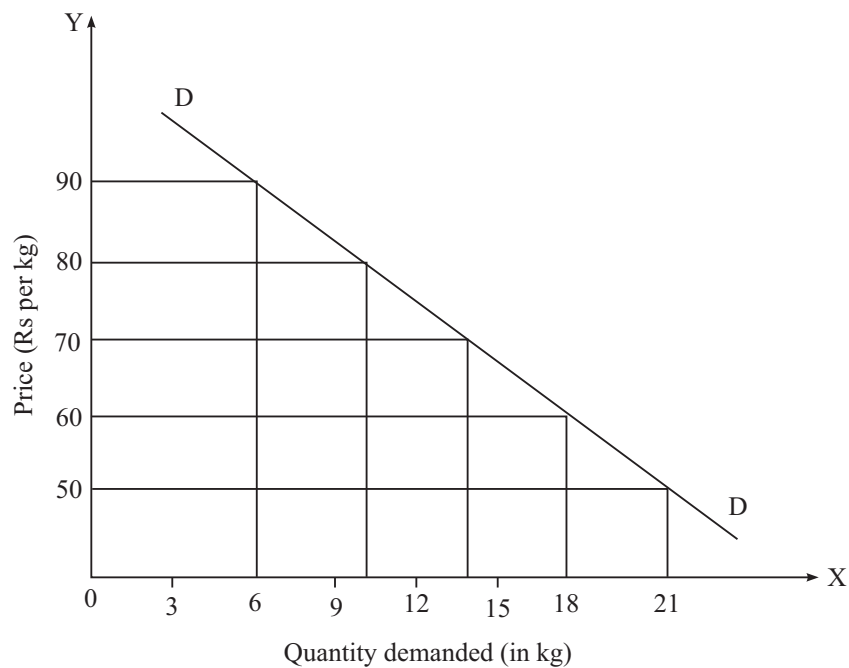


Fig. 15.3

In Figure 15.3 points F, G, H, I and J show the quantity demanded of apples per week in the market at each of the price given in schedule 15.3. Point F shows that the market demand per week of apples is 6 Kgs when the price of apples is ₹ 90 per Kg. Similarly, the other combinations of price and quantity demanded of apples as given in table 15.3 are shown as points G, H, I and J. By joining these points market demand curve for apples can be obtained. Thus, market demand curve is a horizontal summation of individual demand curves.

15.13 MOVEMENT ALONG THE DEMAND CURVE (CHANGE IN QUANTITY DEMANDED)

In law of demand you have already studied the inverse relationship between price and quantity demanded. When quantity demanded of a commodity changes due to change in its price, keeping other factors constant, it is called change in quantity demanded. It is graphically expressed as a **movement along the same demand curve**.

There can be either a downward movement or an upward movement along the same demand curve. Upward movement along the same demand curve is called **contraction of demand or decrease in quantity demanded** and downward movement along the same demand curve is known as **expansion of demand or increase in quantity demanded**. These can better be explained with the help of Fig. 15.4.

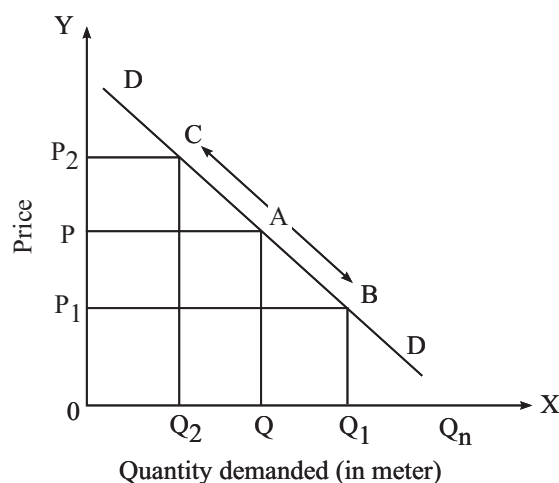


Fig. 15.4: Movement along the demand curve

A fall in price from OP to OP_1 leads to increase in quantity demanded from OQ to OQ_1 (expansion of demand) resulting in a downward movement from point A to point B along the same demand curve DD.





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When Price rises from OP to OP_2 , quantity demanded falls from OQ to OQ_2 (contraction of demand) leading to an upward movement from point A to point C along the same demand curve DD .

Expansion of demand and contraction of demand can also be explained through a demand schedule.

See the following demand schedules of apples in table 15.4 and 15.5:

Table 15.4 Expansion of Demand

Price of apples (₹ Per kg.)	Quantity Demanded of apples per week (In kg.)
70	3
60	4
50	5

As seen in table 15.4, as price of apples falls, quantity demanded of apples increases, showing expansion of demand. This is also called increase in quantity demanded.

Table 15.5 Contraction of Demand

Price of apples (₹ Per kg.)	Quantity Demanded of apples per week (In kg.)
70	3
80	2
90	1

You can see in table 15.5 when price of apples rises, quantity demanded falls showing contraction of demand. This is also called decrease in quantity demanded.

15.14 SHIFTE IN DEMAND CURVE (CHANGE IN DEMAND)

In law of demand all factors other than price of the commodity are assumed to be constant. But what happens when other factors determining demand change but price remains constant? When the demand of a commodity changes at the same price, it means the change is due to change in anyone or more of the other factors that affect demand. **When the demand for a commodity changes due to change in any factor other than the price of the commodity, it is known as change in demand.** It is graphically expressed as **shift in demand curve.**

Demand curve of a commodity may shift due to change in price of substitute good, change in price of complementary goods, change in income of the buyer, change in tastes and preferences, change in population, change in distribution of income, change in season and weather etc.

The shift in demand curve can be explained with the help of Fig. 15.5:

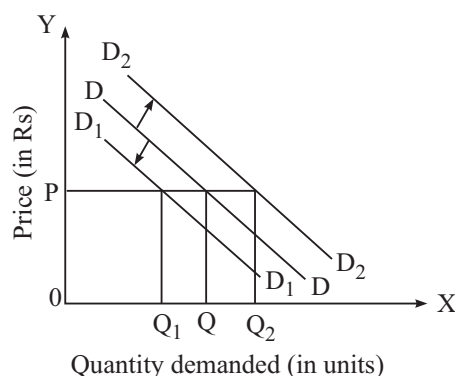


Fig. 15.5: Shift in demand curve

You can see in fig. 15.5 that quantity demanded decreases from OQ to OQ_1 at the same price OP . This decrease is due to unfavourable change in factors other than price of the commodity. This is called **decrease in demand**. When there is decrease in demand, the demand curve shifts towards left.

When quantity demanded increases from OQ to OQ_2 at same price OP , this is called **increase in demand**. Increase in demand is due to favourable change in factors other than price of the commodity. In case of increase in demand, the demand curve shifts towards right.

Increase in demand and decrease in demand can also be explained with the help of demand schedules. Table 15.6 explains increase in demand:

Table 15.6 Increase in Demand

Price of Apples (₹ Per Kg.)	Quantity Demanded of Apples (In kgs.)	Quantity Demanded of Apples (In kgs.)
(1)	(2)	(3)
90	1	2
80	2	3
70	3	4



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If you study table 15.6, you will find that at a price of ₹ 90 per Kg. quantity demanded of apples rises from 1 Kg. to 2 Kg. Similarly at all other prices the quantity demanded of apples is more in column 3. This rise in demand is due to change in factors other than price of the commodity.

In the same way, we can prepare a demand schedule for decrease in demand. Table 15.7 explains decrease in demand:

Table 15.7 Decrease in Demand

Price of Apples (₹ Per kg.) (1)	Quantity Demanded of Apples (In kgs.) (2)	Quantity Demanded of Apples (In kgs.) (3)
70	3	2
60	4	3
50	5	4

Quantities of apples shown in column (3) of the table show the fall in demand at the same price. This fall in demand is due to unfavorable change in factors other than price of the commodity.



INTEXT QUESTIONS 15.4

1. What is a demand schedule?
2. Complete the following table:

Price (₹ Per Unit)	Quantity Household A	Demanded Household B	(Units) Household C	Market Demand (Units)
1	15	20	16	—
2	12	18	13	—
3	9	16	10	—
4	6	14	7	—
5	3	12	4	—

3. What is meant by expansion of demand of a commodity?
4. State any two factors which may lead to increase in demand for a commodity?



WHAT YOU HAVE LEARNT

- Demand for a commodity is the quantity of a commodity that a consumer is willing to buy at a given price during a given period of time.
- Desire means a mere wish to have a commodity. Want is that desire which is backed by the ability and willingness to satisfy it. Demand is the want of a commodity at a given price during a given period of time.
- The main determinants of individual demand are: (i) Price of the commodity (ii) Price of related goods (iii) Income of the buyer and (iv) Tastes and preferences of the buyer.
- In addition to the factors affecting individual demand, market demand for a commodity is also affected by (i) Number of buyers in the market (ii) Distribution of income and wealth and (iii) Season and weather etc.
- The law of demand states that other things remaining same, quantity demanded of a commodity is inversely related to its price.
- The demand curve slopes downwards from left to right due to (i) Law of diminishing marginal utility (ii) Income effect (iii) Substitution effect (iv) Change in number of buyers and (v) Diverse uses of a commodity.
- Exceptions to the law of demand are: (i) Giffen goods (ii) Status symbol goods (iii) Necessities (iv) Goods expected to be scarce.
- Demand schedule is a tabular statement of different quantities of a commodity demanded at different prices.
- Individual demand schedule shows different quantities of a commodity demanded by an individual buyer and market demand schedule is an aggregate of all individual demand schedules in the market.
- Demand curve is a diagrammatic representation of law of demand.
- Individual demand curve shows different quantities of a commodity demanded by an individual buyer in a diagrammatic form. Market demand curve is a sum of horizontal slopes of all individual demand curves.
- When the quantity demanded of a commodity rises due to fall in price of a commodity, it is called expansion of demand or increase in quantity demanded.
- When the quantity demanded of a commodity falls due to rise in its price of a commodity, it is called contraction of demand or decrease in quantity demanded.
- In case of expansion of demand, there is a downward movement along the same demand curve and in case of contraction of demand, there is an upward movement along the same demand curve.



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- When the quantity demanded of a commodity rises due to change in factors other than price of the commodity, it is called increase in demand.
- When the quantity demanded of a commodity falls due to change in factors other than price of the commodity, it is called decrease in demand.
- In case of increase in demand, the demand curve shifts towards right. In case of decrease in demand, the demand curve shifts towards left.



TERMINAL EXERCISE

1. What is meant by the term 'demand'?
2. Distinguish between 'desire', want and 'demand' with suitable example.
3. Explain the factors affecting individual demand for a commodity.
4. How is demand for a commodity affected by increase in income of its buyer?
5. Distinguish between (i) Substitute goods and complementary goods (ii) Normal goods and inferior goods
6. State and explain the law of demand.
7. What are the reasons of law of demand?
8. Explain any three conditions in which law of demand does not operate.
9. Distinguish between expansion of demand and increase in demand.
10. Distinguish between contraction of demand and decrease in demand.



ANSWERS TO INTEXT QUESTIONS

15.1

1. Read section 15.1
2. Read section 15.1
3. Read section 15.2
4. Read section 15.3

15.2

1. Read section 15.4
2. Read section 15.4
3. Read section 15.4

15.3

1. Read section 15.6
2. Read section 15.7
3. Read section 15.9

15.4

1. Read section 15.10
2. 51, 43, 35, 27, 19
3. Read section 15.14
4. Read section 15.15



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