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B.A. Economics
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Paper - MIC
Topic - Concept and types of demand

Introduction to Demand

Definition: Demand refers to the desire for a product or service backed by the ability and willingness to pay for it.

Law of Demand: As the price of a good or service decreases, the quantity demanded typically increases, and vice versa, assuming other factors remain constant (ceteris paribus).

Importance of Demand in Economics:

Demand is a fundamental concept in economics as it influences prices, production, and overall market dynamics.

Concept of Demand

1. Determinants of Demand:

Price of the Good: Central factor influencing demand; higher prices generally reduce demand.

- **Income of Consumers:**

Higher income can increase demand for normal goods, while demand for inferior goods might decrease.

- **Prices of Related Goods:**

Includes substitutes (e.g., tea vs. coffee) and complements (e.g., printers and ink or car and petrol)

- **Consumer Preferences:**

Demand is shaped by tastes, trends, and preferences.

- **Expectations about Future Prices:**

If consumers expect prices to rise, they may increase current demand.

2. Demand Schedule and Curve:

- **Demand Schedule:**

A table showing the quantity demanded at different prices.

- **Demand Curve:**

A graphical representation that typically slopes downward, showing the inverse relationship between price and quantity demanded.

Types of Demand

1. **Individual and Market Demand**:

- ☐ **Individual Demand:**

The demand of a single consumer for a product or service.

- ☐ **Market Demand:**

The total demand of all consumers in a market for a product, calculated by aggregating individual demand.

2. Joint and Composite Demand:

- ☐ **Joint Demand :**

Demand for goods that are used together, such as printers and ink cartridges. An increase in demand for one often increases demand for the other.

- ☐ **Composite Demand:**

Demand for a good that has multiple uses. For example, steel is used in car manufacturing, construction, and appliances.

3. Derived Demand:

- ☐ **Derived Demand:**

Demand for a product or factor of production that arises from the demand for another good or service. For instance, the demand for tires is derived from the demand for automobiles.

4. Price Demand, Income Demand, and Cross Demand:

Price Demand: The relationship between the quantity demanded and the price of the good itself.

- **Income Demand:** The change in quantity demanded as a result of changes in consumer income.
- **Cross Demand:** How the demand for one good changes in response to a change in the price of another good (e.g., the effect of coffee prices on tea demand).

5.Direct and Indirect Demand:

- **Direct Demand:** Demand for goods intended for final consumption, like food, clothing, and shelter.
- **Indirect Demand:** Demand for goods that are used to produce other goods, such as raw materials and machinery.

Elasticity of Demand

- **Price Elasticity:** Measures how much the quantity demanded responds to changes in price.
- **Income Elasticity:** Measures the responsiveness of demand when consumer income changes.
- **Cross Elasticity:** Assesses the effect on demand for one good when the price of another related good changes.

Conclusion

Understanding the concept and types of demand helps economists and businesses predict market behaviour, optimise pricing, and develop strategies that align with consumer needs. This framework of demand analysis is essential for creating effective economic policies and business plans.