Mona
Assistant Professor
Department of Economics
Maharaja College, Ara
Veer Kunwar Singh University
B.A. Economics
Sem- I
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Topic : Determinants of Individual Demand and Supply

1. Determinants of Individual Demand

Meaning of Demand:

Demand refers to the quantity of a good that a consumer is willing and able to buy at different prices during a given period of time.

The individual demand depends on several factors that influence the consumer's willingness and ability to purchase.

(a) Price of the Commodity

Main determinant of demand.

According to the Law of Demand, there is an inverse relationship between price and quantity demanded:
i.e., when price rises, demand falls and vice versa.

(b) Income of the Consumer

Higher income increases purchasing power → demand increases for normal goods.

For inferior goods, demand decreases as income rises (since consumers shift to better substitutes).

(c) Price of Related Goods

There are two types of related goods:

1. Substitute Goods: (Tea and Coffee)

If the price of one rises, the demand for its substitute increases.

e.g., if tea becomes costly, demand for coffee rises.

2. Complementary Goods: (Car and Petrol)

If the price of one rises, demand for the other falls.

e.g., higher petrol prices reduce car demand.

(d) Tastes and Preferences

Changes in consumer tastes, fashion, or habits affect demand.

For example, growing health awareness increases demand for fruit juice and decreases demand for soft drinks.

(e) Expectations about Future Prices

If consumers expect prices to rise in the future, they buy more now (demand increases).

If they expect prices to fall, they postpone purchases (demand decreases).

(f) Population and Demographic Factors

Increase in population → higher total demand.

Age composition also matters. e.g., a higher youth population increases demand for smartphones and education services.

(g) Government Policy

Taxes, subsidies, and restrictions affect demand.

Subsidies on electric vehicles increase their demand; higher taxes on cigarettes reduce demand.

(h) Seasonal Factors

Demand for certain goods like woollen clothes, umbrellas, or cold drinks depends on seasons.

- [ ] **Determinants of Individual Demand**

Determinants Effect on Demand

- Price of commodity: Inverse relation
- Income of consumer : Direct (normal goods), inverse (inferior goods)
- Price of related goods: Substitutes (+), Complements (–)
- Tastes & preferences: Favorable → ↑ Demand
- Expectations : Future price rise → ↑ Demand
- Population & composition: ↑ Population → ↑ Demand
- Government policy: Taxes ↓ Demand, Subsidies ↑ Demand
- Seasonal factors: Seasonal variations

2. Determinants of Individual Supply

Meaning of Supply:

Supply refers to the quantity of a good that a producer is willing and able to sell at different prices during a given period.

The individual supply depends on several factors affecting production and profitability.

(a) Price of the Commodity

Main determinant of supply.

There is a direct relationship between price and quantity supplied- "as price increases, producers are willing to supply more."

(b) Prices of Related Goods

If the price of substitute goods (that can be produced with the same resources) increases, producers may switch production.
e.g., if wheat price rises, farmers may reduce rice supply.

(c) Cost of Production

Higher input costs (raw materials, labour, energy) reduce supply since profitability falls.

Lower costs encourage higher supply.

(d) Technology

Improved technology increases efficiency, reduces cost, and raises supply.

e.g., modern machinery in agriculture boosts crop supply.

(e) Government Policy

Taxes increase cost → reduce supply.

Subsidies lower cost → increase supply.

Regulations (like environmental laws) can also affect supply.

(f) Future Price Expectations

If producers expect higher future prices, they may withhold current supply.

If they expect prices to fall, they will increase supply now.

(g) Natural and Climatic Conditions

Especially important in agriculture.

Good weather → higher supply
Drought/floods → lower supply.

(h) Number of Firms / Sellers

More producers in the market → greater total supply.

Exit of firms → fall in supply.

☐ **Determinants of Individual Supply**

Determinant Effect on Supply

- Price of commodity : Direct relation
- Prices of related goods: Substitutes affect supply
- Cost of production: Higher cost → ↓ Supply
- Technology: Better tech → ↑ Supply
- Government policy: Subsidy→↑ Supply, Tax→ ↓ Supply
- Future expectations: Higher future price → ↓ Current supply
- Natural conditions: Favorable → ↑ Supply
- Number of firms: More firms → ↑ Supply