3.A. Demand analysis

Q. 1. Complete the following statements:
1) The relationship between demand for a good and price of its substitute is
Ans. Direct

2) The relationship between income and demand for inferior goods is
Ans. inverse

3) Symbolically, the functional relationship between Demand and Price can be expressed as
Ans. Dx=f(Px)

4) When less units are demanded at high price it shows
Ans. Contraction in demand

Q. 2. Give economic terms:
1) A situation where more quantity is demanded at lower price
Ans. Expansion of demand

2) Graphical representation of demand schedule
Ans. Demand curve

3) A commodity which can be put to several use
Ans. Multipurpose commodity

4) More quantity is demanded due to changes in the factors determining demand other than price
Ans. Increase in demand

5) A desire which is backed by willingness to purchase and ability to pay.
Ans. Demand

Q. 3. Distinguish between:
1) Desire and Demand

Desire	Demand
1. Meaning Desire refers to a mere wish of a person to have a particular commodity.	**1. Meaning** Demand refers to a desire backed by the ability to pay and the willingness to pay for a particular commodity

2. Relation with price, place and time Desire has no relation with price, place and time.	**2. Relation with price, place and time** Demand has relation with price, place and time.

2. Expansion in demand and contraction in demand

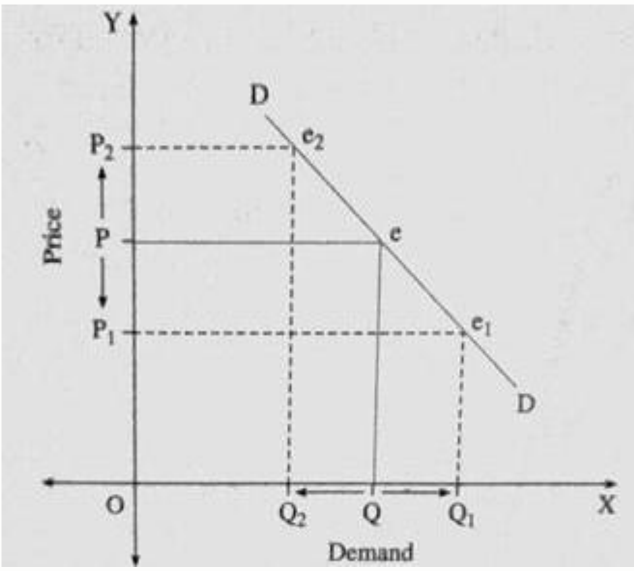
Expansion in demand	Contraction in demand
1. Meaning Other factors remaining constant. A rise in demand due to a fall in price is called expansion in demand.	**1. Meaning** Other factors remaining constant, a fall in demand due to a rise in price is called contraction in demand.
2. Movement in equilibrium point In expansion in demand. Equilibrium point of price and demand moves downward from the left to the right on the same demand curve.	**2. Movement in equilibrium** In contraction in demand, equilibrium point of price equilibrium point and demand moves upward from the right to the left on the same demand curve.

3. Increase in demand and decrease of demand

Increase in demands	Decrease of demand
1. Meaning A rise in demand caused by favourable changes in other factors than price is called increase in demand	**1. Meaning** A fall in demand caused by unfavourable changes in other factors other than price is called decrease in demand.
2. Causes Increase in demand is caused by: (1) Rise in income (2) Increased liking for a commodity (3) Decrease in taxes	**2. Causes** Decrease in demand is caused by: (1) Fall in income (2) Decreased liking for a commodity (3) Increase in taxes

Q. 4. State with reasons whether you agree or disagree with the following statements:
1) Demand curve slopes downward from left to right.
Ans. Yes, I agree with this statement.
Reasons: (1) According to the Law of Demand propounded by Dr. Alfred Marshall, "Other things being equal as price falls demand tends to rise and as price rises demand tends to fall."

(2) This statement can be explained with the help of the following diagram:



From the above diagram it can be seen that as price rises from OP to OP, demand falls from OQ to 0g. Similarly, as price falls from OP to OP, demand rises from OQ to OQ^1. Demand curve. Le. DD indicates the inverse relationship between the price and the quantity demanded of a commodity,

(3) Diminishing marginal utility, income effect. substitution effect multipurpose uses. new consumers, etc. are the reasons for demand curve sloping downward from left to right Thus, demand curve slopes downward from left to right.

2) Price is the only determinant of demand.
Ans. No, I disagree with this statement.
Reasons: The determinants of demand are as follows:
(1) Price: Price is one of the most important factors that affect market demand. Usually, larger quantity is demanded at a lower price and vice versa.

(2) Income: Income is yet another important factor that affects market demand.

Income affects the purchasing power of a consumer. Income and demand are directly related to each other. Normally, demand rises with increasing income and vice versa.

(3) Prices of Substitute Goods: Market demand also gets influenced by the prices of substitutes. If a substitute is available at a lower price, people demand the substitute goods in greater quantities than the commodity in question. For example, if the price of tea falls, demand for coffee tends to fall.

(4) Prices of Complementary Goods: Market demand also gets affected by the prices of complementary goods. If the price of a complementary good rises, the demand of the commodity in question tends to fall. For example, if the price of petrol rises, demand for cars tends to fall.

(5) Nature of products: If a commodity is a necessity and its use is unavailable, then its demand will continue to be the same irrespective of change in its price. For example, demand for salt, medicines, etc. Thus. nature of commodity determines the demand.

(6) Size of Population: Demand for various goods and services gets affected by the size as eu as the composition of population. An increase in population leads to an increase in demand for a variety of goods and services. On the other hand decrease in population leads to decrease in demand for a variety of goods and services.

(7) Expectations about future prices: Expectations about future prices also determines the demand. For example, if consumers expect fall in the price of a particular commodity in the near future, they will demand less quantities of such commodity though its present price is comparatively less and vice versa.

(8) Advertisements: Nowadays, the market demand for goods and services gets highly influenced by advertisements and other promotional activities. Attractive advertisements, sales promotion schemes and effective salesmanship lead to increase in demand for various goods and services, For example, demand for toothbrush, cosmetics, etc.

(9) Tastes, Habits and Fashions Some factors such as taste, habit of consumers, etc. also determine the demand. For example, an increased liking for cold drinks, ice creams, etc. increases their demand. Similarly, commodities in fashion have more demand and the commodities out of fashion have less demand.

(10) Level of Taxation: Government's taxation policy also affects demand. For example, a rise in tax level reduces the consumer's disposable income and it in turn decreases the demand for different goods and services and vice versa.

(11) Other Factors: Climatic conditions (Flood, Drought. Earthquake). Change in technology government policies, customs and traditions, etc. Other factors also affect demand for various goods and services.

3) When price of Giffen goods falls, the demand for it increases
Ans. No, I disagree with this statement Reasons:
(1) Sir Robert Giffen from England noticed that in the case of inferior quality products (Giffen good) the Law of Demand does not hold good. When the price of Giffen goods falls, buyers real income gets increased. As its effect, they demand more of superior quality goods.

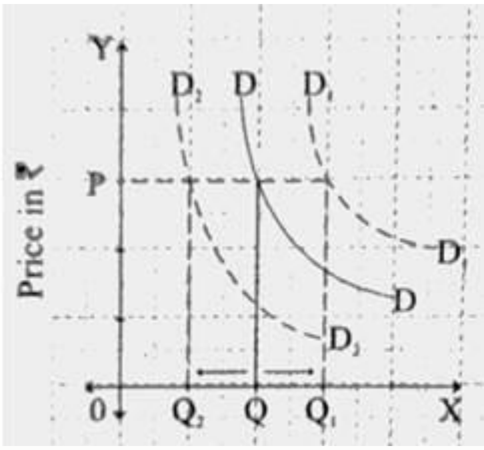
(2) For example, when the price of vanaspati ghee falls, (its demand remains less), the demand for pure ghee rises.

(3) Thus, fall in prices of Giffen goods leads to fall in their demand. Therefore Giffen goods are considered as exception to the Law of Demand. This phenomenon is known as Giffen's paradox. Thus, when price of Giffen goods falls, the demand for it does not increase but decreases.

Q. 5. Observe the following table and answer the following questions:

Quentity Demanded				
Price per Kg Rs.	**Consumer A**	**Consumer B**	**Consumer C**	**Market demand In Kg (A+B+C)**
25	16	15	12	**43**
30	12	11	10	**33**
35	10	09	08	**27**
40	08	06	04	**08**

2) Observe the given diagram and answer the following questions



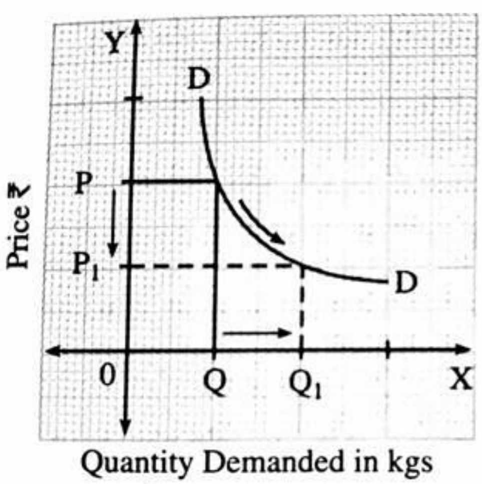
Questions:
(1) Rightward shift in demand curve.
Ans. Increase in demand

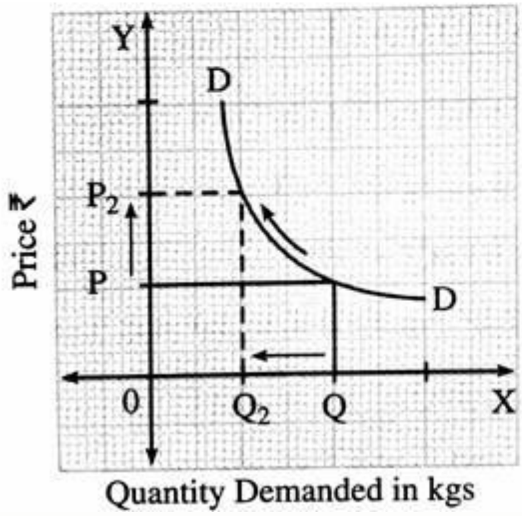
(2) Leftward shift in demand curve.
Ans. Decrease in Deamand

(3) Price remains.
Ans. OP

(4) Increase and decrease in demand comes under.
Ans. Change in Demand

3) Explain the diagram:
(A)





(A)	(B)
(1) Diagram B represents **<u>expansion</u>** in demand.	(1) Diagram B represents **<u>contraction</u>** in demand
(2) In diagram A movement of demand curve is in **<u>downward (from left to right)</u>** direction.	(2) In Diagram B movement of demand curve is in **<u>upward (from right to left)</u>** direction.

6. Answer the following questions in detail:

(1) State and explain the Law of Demand.

Ans. The Law of Demand can be stated and explained with the help of the following points:

(1) Law of Demand: The Law of Demand is one of the fundamental laws of consumption. It was propounded by Dr. Alfred Marshall in his famous book, 'Principles of Economy is'. The Law of Demand explains the inverse relationship between the price and the quantity demanded.

(2) Statement of Law: "Other things being equal, the amount demanded rises with a fall in price: and diminishes with a rise in price."

(3) Symbolical Representation: The law of demand is expressed symbolically as follows:

$$D_x = f[P_x]$$

Where, D stands for demand for a commodity x, f stands for function of, Px stands for the price of the commodity x.

(4) Individual Demand Schedule: The Law of Demand is explained in the following individual demand schedule:

Price (rupees) of commodity x	Individual Demand of Commodity x (per day in units)
1	5
2	4
3	3
4	2
5	1

(5) Explanation of Individual Demand Schedule: From the above individual demand schedule it can be observed that at a lesser price (1) more units of commodity x are demanded (5 units). Similarly at a higher price (rupeee 5) less units of commodity x are demanded (1 unit). Thus, there exists an inverse relationship between the price and the quantity demanded.

(6) Individual Demand Curve: The Law of Demand can be explained with the help of the following diagram of the individual demand curve:

(7) Explanation of Individual Demand Curve: In the above diagram, Y-axis represents the price of the commodity x and X-axis represents demand of commodity x. From the above diagram it can be seen that the demand curve, i.e. DD slopes downwards from the left to the right. Price and demand are inversely related to each other. Therefore, the demand curve has negative slope.

2) Explain in detail the determinant of demand

Ans. (1) Price: Price is one of the most important factors that affect market demand. Usually, larger quantity is demanded at a lower price and vice versa.

(2) Income: Income is yet another important factor that affects market demand. Income affects the purchasing power of a consumer. Income and demand are directly related to each other. Normally, demand rises with increasing income and vice versa.

(3) Prices of Substitute Goods: Market demand also gets influenced by the prices of substitutes. If a substitute is available at a lower price, people demand the substitute goods in greater quantities than the commodity in question. For example, if the price of tea falls, demand for coffee tends to fall.

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