# 3 Demand



**Introduction**

Demand and supply are very important concepts among basic concepts of economics. A person can not have analytical power without explanation of demand and supply in economics. Therefore, explanation of two market forces called demand and supply is necessary. Here, we will study the concept of demand.

## 3.1 Meaning

Demand is the quantity of a commodity which a buyer desires, is able and willing to buy at a given price at a given point of time.

Demand is thus determined by five factors, namely, desire, willingness to buy, ability to buy, a particular price and a particular point of time. All these five factors are essential to define demand.

## 3.2 Factors Affecting Demand/Determinants of Demand

The determinants of demand for commodity/service can be classified as :

(1) Price of that commodity/service (2) Factors other than price (Other determinants).

**3.2.1 Price of a Commodity/Service :** Price of the concerned good is the most important determinant of its demand. When price of a good falls, a rational consumer will buy more, i. e. demand expands and when price falls a rational consumer will buy less, i. e. demand contracts.

**3.2.2 Other Determinants :**

**3.2.2.1 Tastes and Preferences of a Consumer :** To a considerable extent, demand depends upon tastes and preferences of a consumer. These are associated with her/he likes and dislikes. If a person is fond of reading, her/his preference for reading will change with age. e.g. at a young age, a person prefers to read story books, at adolescence may prefer to read novels and in old age may prefer to read spiritual books.

**3.2.2.2 Income of a Consumer :** The demand for a commodity increases with increase in the consumer's income. When income of a consumer falls, her/his demand for a good falls. Thus, there is a direct relationship between income and demand. However, there are some goods known as inferior goods in economics, whose demand decreases with increase in income. Thus, these goods are exceptions to the direct relationship between income and demand.

**3.2.2.3 Prices of Related Goods :** Normaly related goods are : (1) substitute goods (2) complementary goods. The demand for a particular goods in the market depends upon the prices and availability of its related goods, namely, substitute goods and complementary goods.

**(I) Price of Substitute Goods :** Substitute goods are those goods which can be easily used in place of one another. Such goods have similar characteristics. They can be used alternatively in the statisfaction of a want. In other words, substitute goods are severly competing goods. e.g. very closely competing brands of televisions, motorcycles, refrigerators etc. substitute one another. If the price of a substitute good falls then the consumer may choose to replace her/his current brand with the substitute which has become cheaper. Hence, demand for a good falls when price of its substitute falls.

**(II) Price of Complementary Goods :** Complementary goods are goods which are consumed togethe. One good cannot be consumed without the other. In other words, these must be consumed jointly to satisfy a want/need. For example,. mobile phone and simcard, air conditioner and electricity, spectacle frame and spectacle glasses etc. If the price of a complementary good rises then the demand for the original good falls and vice-versa. Since these goods are jointly consumed, price rise in even one of these goods makes the joint consumption expensive and so the consumer demands lesser of both and vice-versa.

**3.2.2.4 Expectations about Future Prices :** An individual's expectation about the future price of a good affects her/his current demand for that good. If the consumer expects the price of a good to rise in the future, her/his demand for this food increases in the current period and vice-versa.

**3.2.2.5 Size and Demorgaphic Profile of Population :** The size as well as demographic profile of population impact the total market demand for a good. If total population is large then total market demand will be more and vice-versa like-wise if greater population belongs to a particular age-group then the demand for certain goods in the market will be more.

### 3.3 Demand Function

The cause effect relationship between variables can be expressed in a functional notation. Demand function specifies a functional (mathematical) relatioship between demand for a good and the determinants of this demand. It represents that demand for a good is dependent on many factors like price of the good, tastes and preferences of a consumer, income of the consumer, prices of related goods etc. Market demand also depends upon size of the population. Demand function can be shown as under.

Where, $D_x = f(P_x, P_y, P_e, T, Y, U)$

$D_x$ = Demand for commodity X

$f$ = Functional Notation

$P_x$ = Price of commodity X

$P_y$ = Price of related commodity Y

$P_e$ = Expectations Regarding Future Prices

T = Tastes and Preferences of the consumer

Y = Consumer's Income

U = Other Factors

Economics studies the relationshop between price and demand for various purposes. In the law of demand, the relationship between price and demand for a good is studied by assuming all other demand determinants as given.

### 3.4 Law of Demand

The principle explaining the relationship between price and demand for a good keeping the effect of all other determinants as constant is called the 'law of Demand'. In this law, price is the cause variable and demand is the effect variable.

This law was presented by prof. Alfred Marshall and it expresses an inverse relationship between price and demand stating that, "When other factors influencing demand remain unchanged, if price of a good falls, its demand expands and if price of a good rises, its demand contracts."

**3.4.1 Assumptions of Law of Demand :** Ther inverse relationship between price and demand of a good, as expressed by the law of demand is based upon certain assumptions.

(1) Tastes and preferences of the consumer remain unchanged.

(2) Income of consumer remains unchanged.

(3) Price of substitute and complementary goods remain unchanged.

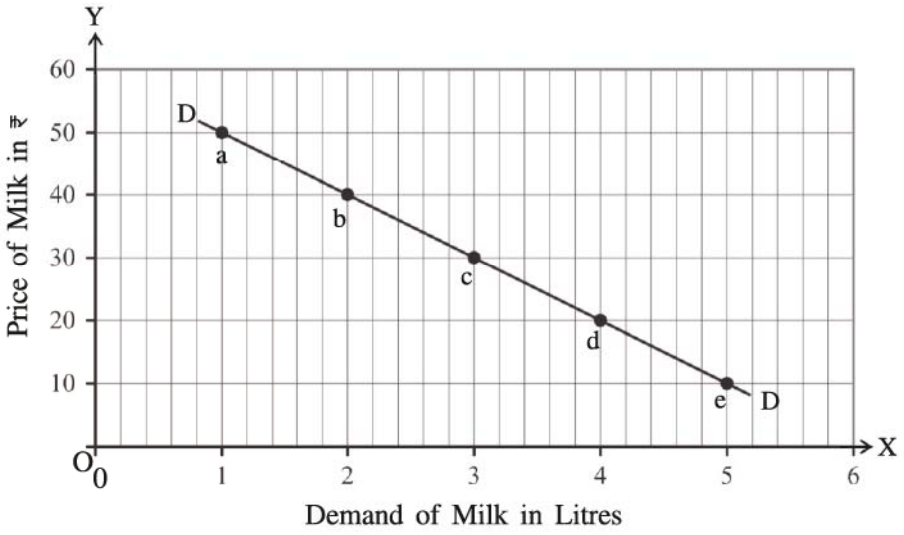
(4) Consumers do not make anticipation regarding future prices.

(5) Size of population remains the same.

**3.4.2 Explanation of Law of Demand :** We can explain law of demand with the help of the schedule, diagram and reasoning provided below :

**Demand Schedule :** The schedule showing willingness of a consumer to buy different quantities a good at various prices is called the demand schedule. The following schedule is an abstract (imaginary) example of a demand schedule.

| Price of Milk in ₹ | Demand of Milk (in Litres) |
|---|---|
| 50 | 1 |
| 40 | 2 |
| 30 | 3 |
| 20 | 4 |
| 10 | 5 |




**3.1 Diagram for Law of Demand**

The above diagram shows price of milk on 'Y'-axis and demand for milk on 'X'-axis. By plotting the demand given in the schedule at various prices, we obtain the various points 'a', 'b', 'c', 'd', 'e' which show the various price-demand combinations. By joining these points, we get the demand curve 'DD' which slopes downward from left to right indicating the inverse relationshop between price and demand.

At point 'a', price of milk is ₹ 50 and demand is 1 litre. At Point 'b', price falls to ₹ 40 and so demand expands to 2 litres and accordingly at point 'e' when price falls as low as ₹ 10, demand expands to as high as 5 liters.

**Analysis (Reason for inverse relationship between price and demand) :** The inverse relationship between price and demand occurs because of two reasons which are explaind below :

**3.4.2.1 Income Effect :** When the monetary income of the consumer remains constant, but price of the good falls then her/his real income rises. (real income is the purchasing power of money income). When real income rises, a consumer can buy more of a good and therefore its demand may rise. For example, if the amount of money at the disposal of the consumer is ₹ 50 and the price of milk is ₹ 50 per litre than the consumer can buy (demand) only 1 litre of milk. But, if the price of milk falls to ₹ 10, the consumer can now demand 5 litres of milk with money income of ₹ 50. Mostly, normal goods have a positive income effect. Inferior goods have a negative income effect. That is, when the price of inferior goods fall, the real income of the consumer increases but the demand for these goods falls. For example, coarse food grains.

**3.4.2.2 Substitution Effect :** When price of the concerned good falls, it becomes relatively cheaper than its substitutes. Hence, a consumer will reduce the consumption of substitute goods and expand the demand for the concerned good. This is substitution effect. For example, between two varieties of pants, namely, a pair of regular/cotton/terry-cotton pants and denim pants, if the price of regular pants falls and that of denim pants remains the same then the consumer finds the regular pants cheaper compared to the denim pants and will expand the demand for the regular pants. (coconut water and cold drinks.)

**3.5 Exceptions to the Law of Demand**

Exceptions to the law of demand means that, when price of a good falls, its demand contracts

instead of expanding and vice-versa. Thus, a price change creates demand to change in opposite direction than that indicated in the law of demand. Some exceptions to the law of demand are stated below :

**3.5.1 Prestigious Goods :** Certain goods which are priced very high and are generally consumed by very rich people like, expensive jewellery, expensive cars, expensive mobile phones etc. are exceptions to the law of demand. Such goods are used by the rich as status symbols and hence, even when there is a rise in their price, their demand expands instead of contracting. And, if their price falls, the rich may contract their demand thinking that a fall in price means that the good is losing its prestige.

**3.5.2 Extremely Low-Priced Goods :** Certain goods are extremely low-priced goods and hence, the entire consumption expenditure on such goods forms a very small proportion of the consumer's income. For example, pins, stapler pins etc. Even if their price rises, a consumer's demand for these goods may not contract and if their price falls, the consumer may not expand demand as she/he may not need more of such goods.

**3.5.3 Giffen Goods :** When price of certain goods called inferior goods fall and the real income of a consumer rises, she/he may reduce the consumption of such goods and substitute these by goods of a superior quality. These goods were named after Robert Gifen who made such observations and explained this idea. Such goods are necessary goods and are purchased by the low-income groups.

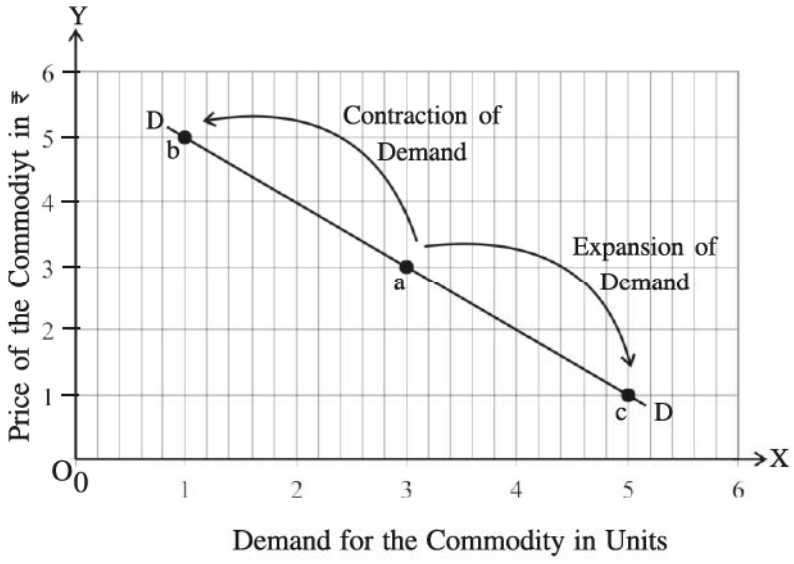
For example, A person with low income purchases Jowar or Bajra. When the price of Jowar/Bajra falls very low, the real income of the consumer tends to increase. Hence, she/he will reduce consumption of such goods and will purchase more of wheat, which is the superior good. Another example is that of vegetable (Vanaspati) Ghee and pure Ghee.

**3.5.4 Special Preferences of People :** Certain times, people get very accustomed and used to certain goods. As a result, if there is some rise in the price of such goods, an individual's demand may not decrease. For example, a particular brand of tooth paste, shoes etc.

### 3.6 Expansion and Contraction of Demand

When other determinants are assumed to remain constant and price is varied, there is expansion and contraction of demand. When prices falls keeping other determinants constant, there is an expansion in demand, accordingly when price rises when other determinants do not change then there is contraction of demand.

| Price of the Commodity in ₹ | Demand of the Commodity in Units | Note |
|---|---|---|
| 5 | 1 | Demand contracts due to rise in price |
| 4 | 2 | |
| 3 | 3 | |
| 2 | 4 | Demand expands due to fall in price |
| 1 | 5 | |




**3.2 Expansion and Contraction of Demand**

In the above schedule, Suppose the initial price is ₹ 3 then the initial demand is 3 units. which is seen at point 'a' in the diagram. When price falls to ₹ 1, demand expands 5 units which is shown at point 'c' in the diagram. The movement from point 'a' to point 'c' on demand curve DD is called expansion of demand.

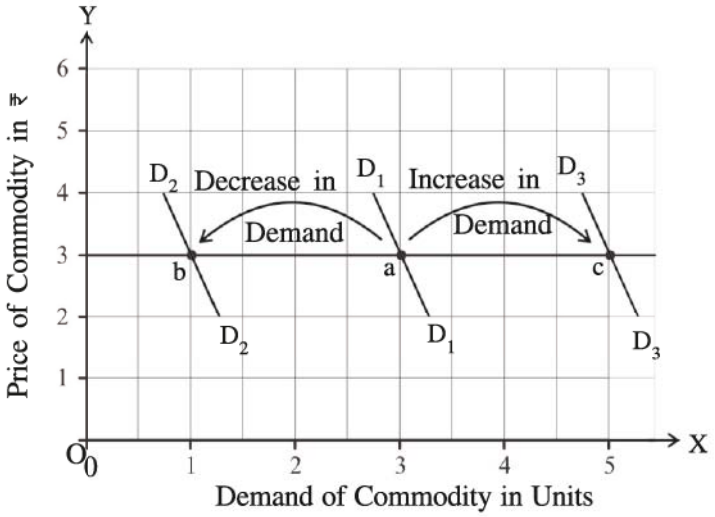
Now from the initial point 'a' if price rises from ₹ 3 to ₹ 5, demand contracts from 3 units to 1 unit which is shown at point 'b'. The movement from point 'a' to point 'b' on the same demand curve DD is called contraction of demand.

In a way expansion and contraction of demand occur on the same demand curve. Expansion is a downward movement on the demand curve and contraction is an upward movement on the demand curve.

### 3.7 Increase and Decrease in Demand

When one factor or some factors other than price change in favour of the demand of a good then there is an increase in demand which is caused by rightward shift of the demand curve. If these factors change against the demand then at the same price, demand decreases as the entire demand curve shifts to the left. Hence, increase and decrease in demand is caused by determinants other than price.

| Price of the Commodity in ₹ | Demand of the Commo-dity in Units | Note |
|---|---|---|
| 3 | 1 | Decrease in demand |
| 3 | 2 | |
| 3 | 3 | |
| 3 | 4 | Increase in demand |
| 3 | 5 | |




**3.3 Increase and Decrease in Demand**

In the above schedule and diagram, initial demand curve is $D_1D_1$ where at price of ₹ 3 demand is 3 units. This is shown at point 'a' on $D_1D_1$.When price remains constant at ₹ 3 but one or some of the other factors change in favour of demand then the demand curve shifts to the right to $D_3D_3$ where the demand increases to 5 units.

From the initial point 'a' on $D_1D_1$, now, if one or some of the other factors change against demand then the demand curve shifts to the left to $D_2D_2$ and the demand decreases from 3 units to one unit. This is depicted at point 'b' on $D_2D_2$.

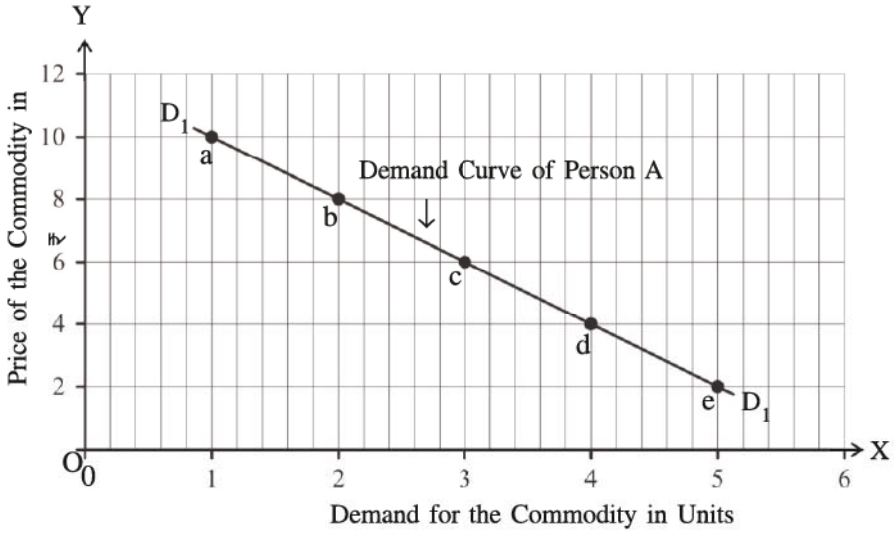
Thus, increase or decrease in demand is seen from a map of more than one demand curve. A rightward shift of the demand curve shows increase in demand and a leftward shift shows decrease in demand.

### 3.8 Individual Demand and Market Demand

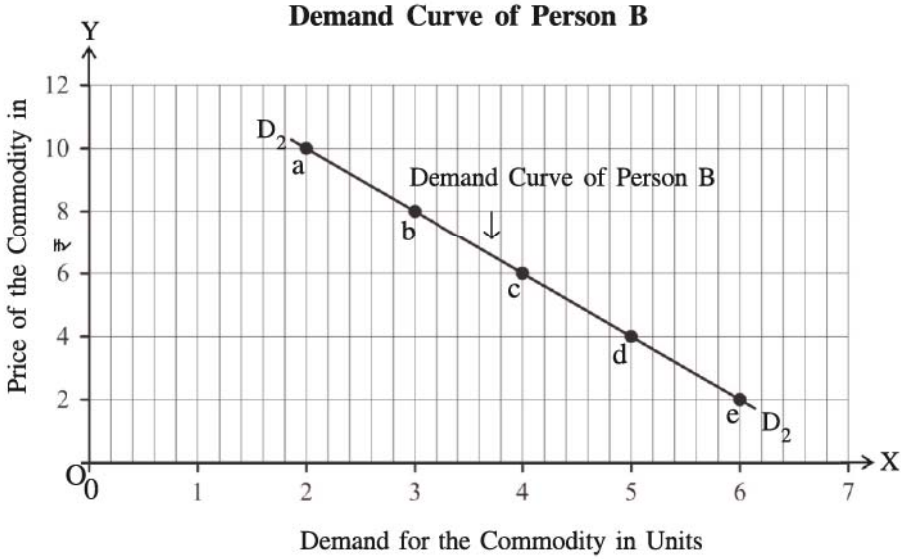
Demand in economics is also classified as individual demand and market demand. Individual demand is the demand of a good by an individual consumer at a given price at a particular point of time. The sum total of such individual demands of all existing consumers in the market is called market demand at a given price at a particular point of time.

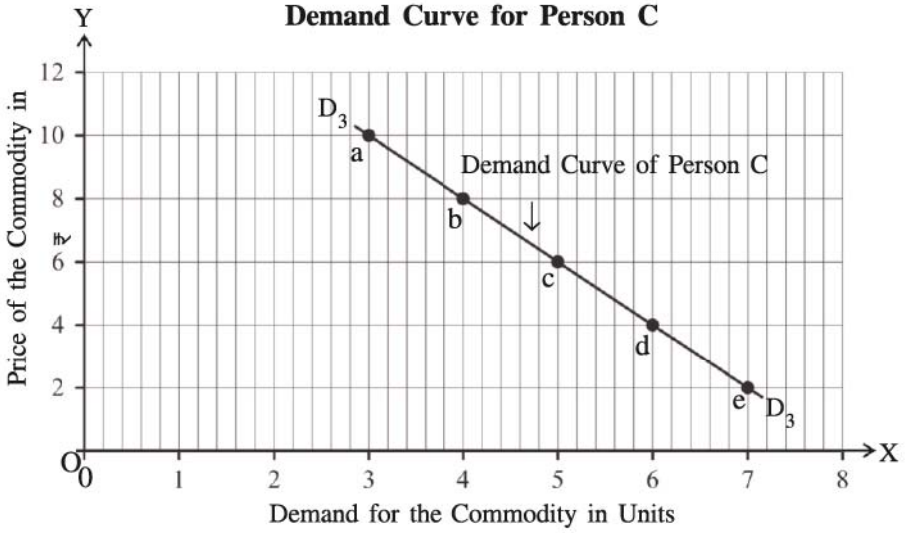
| Price of the Commodity (in ₹) | Demand by Individual A (in Units) | Demand by Individual B (in Units) | Demand by Individual C (in Units) | Market Demand (Total of Demand by A, B and C) (in Units) |
|---|---|---|---|---|
| 10 | 1 | 2 | 3 | 6 |
| 8 | 2 | 3 | 4 | 9 |
| 6 | 3 | 4 | 5 | 12 |
| 4 | 4 | 5 | 6 | 15 |
| 2 | 5 | 6 | 7 | 18 |

**Demand Curve of Person A**

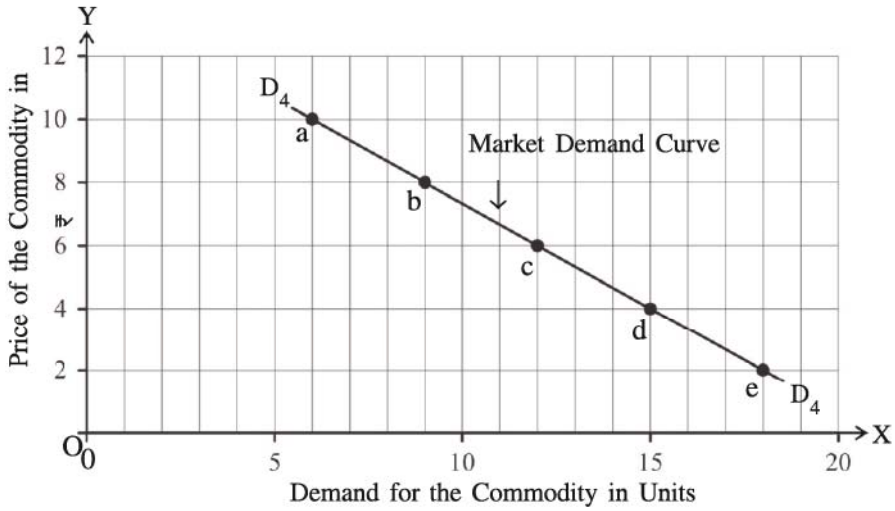



**Demand Curve of Person B**






**Market Demand Curve**




**3.4 Individual Demand Curves and Market Demand Curve**

The above schedule depicts the individual demands by consumers A, B, and C. The summation of individual demands is shown as market demand. The individual demand curves are shown as demand curve of A, demand curve of B and demand curve of C in separate diagrams above. And, the market demand curve is also shown in a separate diagram.

The above diagrams also depict that all the three individual demand curves of A, B and C consumers are downward sloping and so is the market demand curve.

### 3.9 Elasticity of Demand

Elasticity of demand is the extent to which demand responds to changes in any its determinants, like price, income, tastes and preference etc.

### 3.10 Price Elasticity of Demand

Law of demand explains that when other demand determinants are assumed to be constant, as price falls demand expands and as price rises demand contracts. But, it does not state by what proportion demand expands or contracts. The concept of price elasticity of demand explains this.

**3.10.1 Meaning of Price Elasticity of Demand :** Price elasticity of demand shows the proportion (extent) to which demand changes with a change in price. It can be expressed as :

$$\text{Price elasticity of demand} = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

e.g. If a 1% fall in price of commodity 'X' leads to a 5% rise (expansion) in demand for 'X' then,

$$\varepsilon_p = \frac{\text{Percentage change in demand for X}}{\text{Percentage change in price of X}} \qquad (\varepsilon_p = \text{Price Elasticity of Demand})$$

$$= \frac{+5\%}{-1\%}$$

$$= |5|$$

**Note :** Price elasticity of demand is expressed as a pure number and is not associated with any unit of measurement (as percentage, rupees, kgs., litres, meters etc.)

**Definition of Price Elasticity of Demand :** The definition of price elasticity of demand given by Marshall is as under :

According to Marshall, the degree of elasticity of demand depends upon the extent of rise in demand because of a fall in price and upon the extent of fall in demand because of a rise in price.

**3.11 Degrees of Price Elasticity of Demand**

The extent of change in demand because of a change in price can be expressed in five degress as under :

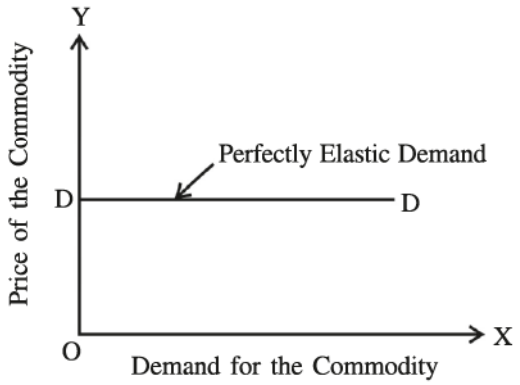
(1) Perfectly elastic demand ($\varepsilon_p = \infty$)
(2) Perfectly inelastic demand ($\varepsilon_p = 0$)
(3) Unitary elastic demand ($\varepsilon_p = 1$)
(4) Relatively elastic demand ($\varepsilon_p > 1$)
(5) Relatively inelastic demand ($\varepsilon_p < 1$)

**3.11.1 Perfectly Elastic Demand ($\varepsilon_p = \infty$) :** When there is an infinite change in demand for commodity 'T' because of a negligible change in its price (which may be as low as zero) then such a demand is called perfectly elastic demand and the elasticity of demand = ∞.

By the formula,

$$\varepsilon_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

$$\frac{a}{1} = \infty \text{ (Infinite)}$$




**3.5 Perfectly Elastic Demand**

Such elasticity of demand is not found in reality but, in the theory of economics, such demand is explained in a perfectly competitive market.

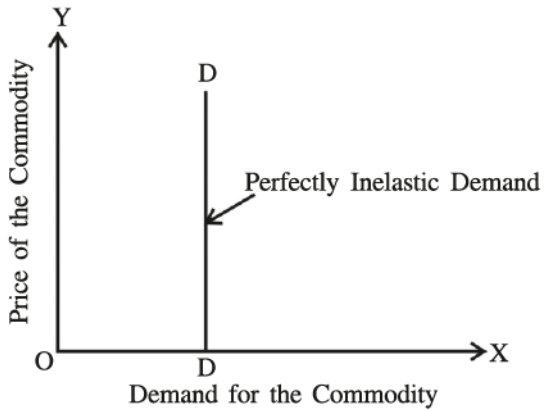
In the diagram the demand curve 'DD' is horizontal straight line parallel to X-axis and depicts infinite change in demand at the same price.

**3.11.2 Perfectly Inelastic Demand ($\varepsilon_p = 0$) :** When price of a commodity say commodity 'K' changes by any amount, say 10% but there is no change in its demand then such a demand is called perfectly inelastic demand.

By the formula,

$$\varepsilon_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

$$= \frac{0\%}{+10\%} = 0 \text{ (zero)}$$




**3.6 Perfectly Inelastic Demand**

As shown in the diagram, 'DD' demand curve is a vertical straight live showing that whatever be the change in price, there is no change in demand. Such elasticity of demand is always zero.

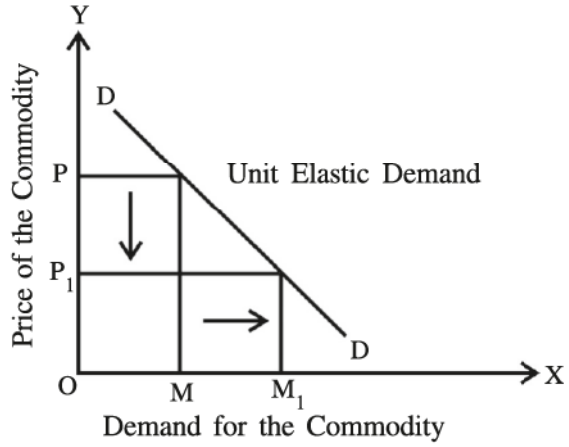
**3.11.3 Unitary Elastic Demand ($\varepsilon_p = 1$) :** When the percentage change in demand is proportionate to percentage change in price then it is called unitary elastic demand. For example, if price of commodity 'S' falls by 5% and its demand by 5%, then there is unitary change in demand.

By the formula,

$$\varepsilon_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

$$= \frac{+5\ \%}{-5\ \%} = |1|$$

When proportionate change in demand and proportionate change in price are equal, then demand of a commodity is known as unitary elastic demand.




**3.7 Unitary Elastic Demand**

In the diagram, on the demand curve 'DD', when price falls by $PP_1$ amount, demand which expands by $MM_1$ is exactly same as price change.

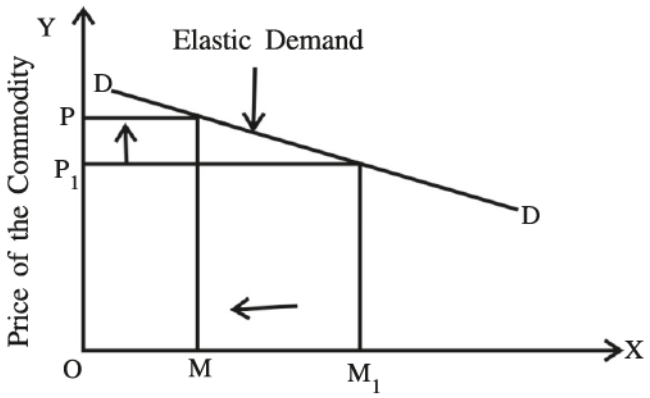
**3.11.4 Relatively Elastic Demand ($\varepsilon_p > 1$) :** When percentage change in demand is proportionately more than percentage change in price then such demand is called relatively elastic demand. For example, if price of commodity 'R' rises by 10 % and its demand falls by 30 %, than its demand is called elastic demand.

By the formula,

$$\varepsilon_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

$$= \frac{-30\,\%}{+10\,\%} = |3|$$

This shows relatively elastic demand as the change is '3'.




**3.8 Relatively Elastic Demand**

In the diagram, on the demand curve 'DD', when price rises by $PP_1$ amount, demand falls by $MM_1$ amount which is proportionatly greater than that of price. This type of elasticity is observed for luxury goods like televisions, cars etc.

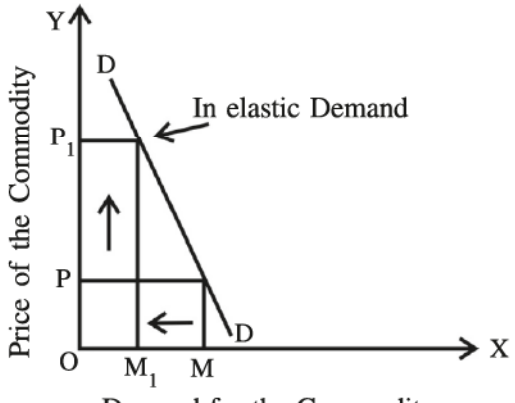
**3.11.5 Relatively Inelastic Demand ($\varepsilon_p < 1$) :** When percentage change in demand is proportionately lesser than percentage change in price then such demand is called relatively inelastic demand. For example, when price of commodity 'G' rises by 20 % and as a result its demand falls only by 5 % then its demand is called relatively inelastic demand.

By the formula,

$$\varepsilon_p = \frac{\text{Proportionate change in demand}}{\text{Proportionate change in price}}$$

$$= \frac{-5\,\%}{+20\,\%} = -\frac{1}{4} \; |0.25|$$

When price elasticity is less than one, than that demand is called as inelastic demand of commodity.




**3.9 Relatively Inelastic Demand**

In the diagram, on demand curve 'DD', when price rises by $PP_1$ amount, demand falls by $MM_1$ amount which is proportionately lesser than that of price. This type of elasticity is observed for necessary goods like food grains, milk, oil etc.

### 3 12 Income Elasticity of Demand :

As price is the cause of change in demand in the concept of price elasticity of demand, income is the cause of change in demand in the concept of income elasticity of demand. It means income elasticity of demand is useful to measure changes in the demand for a commodity with respect to changes in the income of a consumer.

**3 12.1 Meaning of Income Elasticity of Demand :** It is the extent of change in demand for a good because of a change in income of the consumer. It can be expressed in formula as follows :

$$\text{Income elasticity } (\varepsilon_y) = \frac{\text{Proportionate change of demand}}{\text{Proportionate change of income}}$$

### 3 13 Types/Degrees of Income Elasticity of Demand

There are three main types of income elasticity of demand, these are :

**3 13.1 Positive Income Elastic Demand :** When demand increases, due to a rise in income of the consumer or demand decreases due to a fall in income of the consumer, then such a change in demand is known as positive income elasticity of demand.

Infact, there are three degrees of in positive income elasticity of demand.

**(A) Unit Income Elastic Demand ($\varepsilon_y = 1$)** When change of demand and change of income of consumer are proportionately equal, than it is known as unitary income elastic demand.

**(B) Elasticity of Demand Greater than Unity ($\varepsilon_y > 1$)** When change in demand is proportionately greater than the change in income of the consumer then this type of income elasticity of demand is known to be greater than unity .

**(C) Elasticity of Demand Less than Unity ($\varepsilon_y < 1$)** When change in demand is proportionately lesser than change in income of the consumer then this type of income elasticity of demand is known to be lesser than unity.

**3 13.2 Negative Income Elastic Demand :** With the rise in income of a consumer if demand decreases or with the fall of income of a consumer if demand increases then such elastisity of demand is known as negative income elasticity of demand. Normally, some types of inferior goods have negative income elasticity of demand. This concept was given by Robert Giffen and thus such goods are known as giffen goods. For example, Bajra, Kodari (coarse grain), coarse cloth, Palmolein oil, Vegetable ghee etc.

**3 13.3 Zero Income Elastic Demand :** With the change in income of consumer if demand of the good remains unchanged then such demand is known to have zero income elasticity of demand. Usually, this type of income elasticity can be found for low priced goods like salt, post card, pins, match sticks, steppler pins etc.

### 3 14 Cross-Price Elasticity of Demand

Any good in economic analysis can be studied or compared in context of its (1) substitute goods (2) complementary goods

**Substitute Goods :** Substitute goods means those goods which can be easily used in place of a given good for satisfying a want as they are very close alternatives of a given good.

**Complementary Goods :** Complementary goods are goods which are consumed together/jointly. One good cannot be consumed without the other. In other words, these must be consumed together to satisfy a given want.

When the demand of the concerned commodity changes in response to the change in price of its related good (substitute or complementary good) then the extent of such change in demand is called cross elasticity of demand.

$$\text{Cross elasticity of demand} = \frac{\text{Percentage change in demand for good X}}{\text{Percentage change in price for good Y}}$$

### 3.15 Methods of Measuring Elasticity of Demand

The law of demand expresses an inverse relationship between price and demand of a good but does not clearly specify the extent of change in demand supposing if there is a 10% change in price. This kind of specification is provided by the concept of elasticity of demand. There are various methods of measuring elasticity of demand. The commonly used methods are: (1) method of proportionate change (2) total outlay method (total expenditure method) (3) geometric method

**Exercise**

**1. Choose correct option for the following from the options provided :**

(1) Factors affecting demand can be classified in to how many categories ?

(A) One (B) Two (C) Three (D) Four

(2) How is the demand curve sloped ?

(A) Negative (B) Positive (C) Parallel to X axis (D) Parallel to Y axis

(3) What is the other name for poor quality commodities ?

(A) Prestigious Commodities (B) Very cheap commodities

(C) Giffen commodities (D) Useless commodities

(4) How many types of price elasticity of demand are there ?

(A) Two (B) Four (C) Five (D) Seven

(5) What is the relationship between price and demand ?

(A) Positive (B) Negative (C) Equal (D) Zero

(6) Which kind of commodities are called complementary commodities ?

(A) Joint (B) Competitive (C) Not related (D) Alternative

(7) What is the movement of demand curve when demand expands ?

(A) Upward (B) Downward

(C) Right side on another demand curve (D) Left side on another demand curve

(8) Which one has no realtion with demand curve ?

(A) Specific time (B) Specific price (C) Consumer (D) Supply

(9) Who has presented law of demand ?

(A) Adam Smith (B) Alfred Marshall (C) Robbins (D) Keynes

(10) When products are expensive then how is the demand of prestigious goods of the rich ?

(A) More (B) Less (C) Zero (D) Negative

**2. Answer the following questions in one sentence :**

(1) What is demand ?

(2) What is income elasticity of demand ?

(3) What is cross elasticity of demand ?

(4) When is there possibility of expansion - contraction of demand ?
(5) In which situation does demand decrease or increase ?
(6) Why is the law of demand called as conditional law ?

**3. Answer the following questions in short :**

(1) What is demand function ?
(2) What is substitution effect ?
(3) What is meant by Giffen goods ?
(4) What is individual demand ?
(5) What is market demand ?
(6) What is price elasticity of demand ?
(7) Which commodities are called prestigious commodity ?
(8) State the names of methods to measure price elasticity of demand.

**4. Answer the following questions in brief points :**

(1) Define income effect and substitution effect.
(2) Explain expansion and contraction of demand along with diagram.
(3) Explain increase and decrease of demand and represent it diagramatically.
(4) Explain income elasticity of demand.
(5) Explain the exceptions to the law of demand.

**5. Answer the following questions in detail :**

(1) Explain individual demand and market demand along with diagrams.
(2) Define demand and explain factors affecting demand.
(3) Explain law of demand with the help of schedule and diagram.
(4) Define price elasticity of demand and explain its types with diagrams.

**Glossary**

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|---|---|---|
| **Demand** | : | Demand is the quantity of a commodity which a buyer desires, is able and willing to buy at a given price and a given point of time. |
| **Substitute Good** | : | Substitute goods are those goods which can be easily used in place of one another. Such goods have similar characteristics. They can be used alternatively in the statisfaction of a want. |
| **Complementary Good** | : | Complementary goods are goods which are consumed together/jointly. One good cannot be consumed without the other. In other words, these must be consumed jointly to satisfy a given want. |
| **Demand Curve** | : | A curve which plots the quantity of a good demanded at various prices. It depicts the relationship between price and demand. |
| **Expansion of Demand** | : | When other demand determinants remain unchanged, the rise in demand of a good when its price falls is called expansion of demand. |
| **Contraction of Demand** | : | When other demand determinants remain unchanged, the fall in demand of a good when its price rises is called contraction of demand. |
| **Demand Function** | : | Demand function establishes a functional (mathematical) relationship between demand for a good and the various determinants of that demand. |

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|---|---|
| **Price Elasticity of Demand** | Price elasticity of demand shows the proportion (extent) to which demand changes with a change in price. |
| **Perfectly Elastic Demand** | When there is an infinite change in demand because of a negligible change in price (which may be as low as zero) then such a demand is called perfectly elastic demand |
| **Perfectly Inelastic Demand** | When price changes by any amount but there is no change in demand then such a demand is called perfectly inelastic demand. |
| **Substitution Effect** | When price of the concerned good falls, it becomes relatively cheaper than its substitutes. Hence, a consumer will reduce the consumption of substitute goods and expand the demand for the concerned good. This is substitution effect. |
| **Income Effect** | When the monetary income of the consumer remains constant but price of the good falls then her/his real income rises. When real income rises a consumer can buy more of a good and demand rises. This is called income effect |
| **Real Income** | Real income is the purchasing power of money income. In other words, amount of goods which a given money income can buy is the real income. |
| **Giffen Goods** | Giffen goods are those goods whose demand falls when their price falls . These are a special type of inferior goods named after Robert Giffen. |
| **Prestigious Goods** | Goods consumed by the very rich people to enhance their social status and prestige, are called prestigious goods.Their demand is likely to remain unchanged or increase when their price rises. |
| **Price Elasticity of Demand** | A quantitative relationship between proportionate change of demand and proportionate change of price of commodity is known as price elasticity of demand. |
| **Income Elasticity of Demand** | It is the extent of responsiveness of demand to the change in the consumer's income. |
| **Cross-Price Elasticity of Demand** | When the demand of the concerned commodity changes in response to the change in price of its related good (substitute or complementary good) then the extent of such change in demand is called cross elasticity of demand. |

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