

# 15

## WHAT AFFECTS DEMAND

### 15.1 INTRODUCTION

Goods and services are needed by consumers to satisfy their wants and by producers to produce goods and services. In other words, both consumers and producers demand goods and services. The word demand has a specific meaning in economics. In this lesson you will study the meaning of the word 'demand' as used in Economics. You will also study the various factors that influence demand.

### 15.2 OBJECTIVES

After going through this lesson you will be able to :

- explain the meaning of demand;
  - define market demand;
  - distinguish between want or desire and demand;
  - list the factors that affect demand;
  - explain how price of a good affects a consumer's demand for it;
  - prepare a hypothetical individual's demand schedule and draw a demand curve showing the changes in demand as a result of changes in price;
  - prepare a market demand schedule and draw a market demand curve;
  - explain the law of demand and its exceptions;
  - explain how other factors affect demand;
  - distinguish between extension of demand and increase in demand;
  - distinguish between contraction of demand and decrease in demand.
-

### 15.3 MEANING OF DEMAND

#### (a) Individual Demand

The word 'demand' has a specific meaning in Economics. Demand by one buyer for a commodity is called individual demand. Demand for a commodity by an individual is the quantity of that commodity that the individual is willing to buy at a price over some period of time. Thus the definition of demand includes (i) the quantity of a commodity that a buyer is willing to buy, (ii) the price of the commodity at which he is willing to buy that quantity, and (iii) the time period during which he is willing to buy that quantity at the given price. The time period may be a day, a week, a month, a year or any other period. Consider the following statements :

- (i) The demand for mangoes by a consumer is 3 kgs. per day.
- (ii) The demand for mangoes by a consumer is 3 kgs., when the price of mangoes is Rs. 10/- per kg.
- (iii) The demand for mangoes by a consumer is 3 kgs. per day when the price of mangoes is Rs. 10/- per kg.

The first two statements are incorrect. In the first statement the price of mangoes is not stated. Demand is always with reference to a price. The second statement is incorrect because it does not state the time period. Demand is always with reference to a time period. The third statement is correct as it states the quantity of the commodity, the price and time period over which the said quantity is demanded.

#### (b) Market Demand

There are many buyers of a commodity. If we add the quantity of the commodity that each of its buyer is willing to buy at a price over a time period, we will get the market demand of the commodity. Thus market demand means the total quantity of a commodity that all its buyers are willing to buy at a given price over a time period. In case of market demand also any statement about market which does not state the price or the time period will be an incorrect statement.

#### (c) Want or desire and demand

Mere want or desire for a commodity by a person is not called his demand for that commodity. For example, if your want or desire is for a car, it can't be called your demand for a car. This want or desire for a car will become your demand for a car if you have the ability to buy it and you are willing to buy it. Thus demand for a commodity is not mere want or desire for it. It is the want or desire for a good backed by the ability and willingness to pay for it. Thus demand for a commodity means want or desire for it and the ability and willingness to pay for it.

### POINTS TO REMEMBER

- Demand for a commodity is the quantity of that commodity which a buyer is willing to buy at a given price per unit of time.
- Demand is always expressed with reference to a unit of time and a price.
- Mere want or desire for a commodity is not its demand.
- Want or desire for a commodity becomes demand when it is backed by the ability and willingness to pay for it.
- Market demand means the total quantity of a commodity that all its buyers are willing to buy at a given price over a time period.

### INTEXT QUESTIONS 15.1

State whether the following statements are true or false:

- (i) My demand for milk is 10 litres.
- (ii) My demand for milk is 10 litres per month when the price of milk is Rs.10 per litre.
- (iii) My demand for milk is 10 litres per month whatever may be the price of milk.
- (iv) Hari is a rich man and can buy a car, so Hari has a demand for a car.
- (v) Want for goods means demand for goods.
- (vi) Want of a consumer for goods becomes his demand for it when it is backed by ability and willingness of the consumer to pay for it.

### 15.4 FACTORS AFFECTING DEMAND OF A COMMODITY

The demand of a commodity by a buyer of it is generally not a fixed quantity. It is affected by many factors. The following factors affect an individual's demand for a commodity.

- (a) Price of the commodity
- (b) Other factors which include :
  - (i) Income of the buyer of the commodity
  - (ii) Tastes and preferences of the buyer
  - (iii) Prices of the related goods.

You will notice that the factors affecting an individual's demand for a commodity have been put under two groups. In the first group we have included only the price of the commodity and in the second group we have included the income of the buyer, his tastes and preferences and the prices of the related goods. The second group of factors affecting demand is labelled as other factors. This grouping is done because the nature of effects of each group on demand is different. The study of the effects of these factors is done in two parts. First we study how changes in the price of a commodity affect its demand. While doing so we assume that the demand of the commodity is not affected by any of the factors included

in second group. This assumption is stated as 'other things remaining the same'. Similarly, while studying the effects of changes in the factors included in second group on the demand of a commodity, we assume that the price of the commodity does not change. This assumption is stated 'price remaining the same'. We will now discuss the effects of changes in each group of factors on demand.

### 15.5 EFFECTS OF CHANGES IN THE PRICE OF A COMMODITY ON ITS DEMAND

As stated earlier while studying the effects of changes in the price of a commodity on its quantity demanded by a buyer, we assume that no other factor affects the demand of this commodity. In other words, what we are studying is : 'other things remaining the same', how do changes in the price of a commodity affect its demand.

You must have observed that when the price of a commodity falls, you tend to buy more of it and when its price rises, you tend to buy less of it. This is a general reaction of a buyer of a commodity to the changes in its price. In Economics we state this as 'other things remaining the same', when the price of a commodity falls its quantity demanded by a buyer rises and when its price rises its quantity demanded falls. In other words, there is an inverse relationship between the price of a commodity and its quantity demanded by its buyers. You should remember that while stating this inverse relationship between price of a commodity and its quantity demanded we must state the assumption of 'other things remaining the same'. The inverse relationship between the price and quantity demanded of a commodity will hold good only when no other factor is affecting the demand.

So the assumption of 'other things remaining the same' is very important while stating the effects of changes in the price of a commodity on its quantity demanded.

Let us now try to find out the reasons of the inverse relationship between price and quantity demanded of a commodity. There are two reasons for this relationship :

#### (a) Change in real income or purchasing power of the buyer of the commodity

Purchasing power or real income means the quantity of goods and services that one can buy with the given money income. An increase in purchasing power means more can be bought with the same money income and a decrease in purchasing power means less can be bought with the same money income.

When the price of a commodity falls, the purchasing power of its buyer increases. The buyer of it can buy more quantity of it by spending same amount on it. Let us take an example. Suppose a person buys 15 litres of milk per month when the price of milk is Rs.8 per litre. He is spending Rs. 120 per month on milk. Suppose the price of milk falls to Rs. 6 per litre. The purchasing power of this buyer has increased because he can now buy more milk (20 litres) by spending the same amount (Rs. 120) on milk. Thus a fall in price of milk leads to a rise in its demand because the purchasing power of its buyer increases i.e. he can buy more of milk by spending the same amount on purchase of milk. Similarly if the

price of milk rises from Rs. 8 per litre to Rs. 10 per litre, the buyer now can buy only less of milk by spending the same amount on purchase of milk. In this example, he can now buy only 12 litres of milk per month by spending the same amount of money i.e. Rs. 120 on it. In other words, due to a rise in the price of milk, the purchasing power of its buyer has fallen and so the quantity demanded of milk falls.

Thus due to a fall in the price of a commodity, the quantity demanded by its buyer rises because his purchasing power increases. Similarly due to a rise in the price of a commodity the quantity demanded by its buyer falls because his purchasing power falls.

### (b) Substitution of one commodity for other commodity

Two commodities are said to be substitutes of each other when one can be used in place of other. For example, kerosene oil, LPG, electricity are all substitutes when used as domestic fuel or tea and coffee are substitutes of each other. When the price of a commodity falls and the price of its substitute commodity remaining the same, the buyer of this commodity may start substituting it for the other commodity. This will result in the rise in demand of the commodity whose price has fallen. For example, you may be using kerosene oil and electric heater for cooking. If the price of kerosene oil falls, you may find it more economical to use kerosene oil and start using less of electricity for cooking. This means the quantity demanded of kerosene oil will rise. This rise has resulted from substitution of kerosene oil for electricity used for cooking. Similarly, if the price of kerosene oil rises you may now decide to use more of electricity for cooking and it leads to a fall in the quantity demanded of kerosene oil by you. Thus as a result of a fall in the price of a commodity its quantity demanded rises and as a result of a rise in its price its quantity demanded falls due to the availability of substitute commodity.

## 15.6 INDIVIDUAL DEMAND SCHEDULE

The inverse relationship between the price of a commodity and its quantity demanded by an individual buyer can be shown with the help of a schedule. Such a schedule is given in table 15.1.

Table 15.1

Price of milk per litre (Rs.)	Quantity demanded of milk per day (in litres)
12	1.0
10	1.5
8	2.0
6	2.5
4	3.0

This schedule shows the changes in quantity demanded of milk by an individual buyer of milk due to changes in price of milk. At a price of Rs. 12 per litre the quantity demanded by him per day is 1 litre. As the price falls to Rs. 10, Rs. 8, Rs. 6 and Rs. 4 per litre the quantity demanded rises to 1.5 litres, 2.0 litres, 2.5 litres and 3.0 litres respectively. If you read this schedule from below i.e. you take the price of Rs. 4 per litre as the starting point, you will see that at price of Rs. 4 per litre the quantity demanded of milk is 3.0 litres. As the price of milk rises from Rs. 4 to Rs. 6 the quantity demanded falls from 3 litres to 2.5 litres and so on.

### 15.7 INDIVIDUAL DEMAND CURVE

If we plot the individual demand schedule on a graph paper we will get a curve which is called an individual's demand curve.

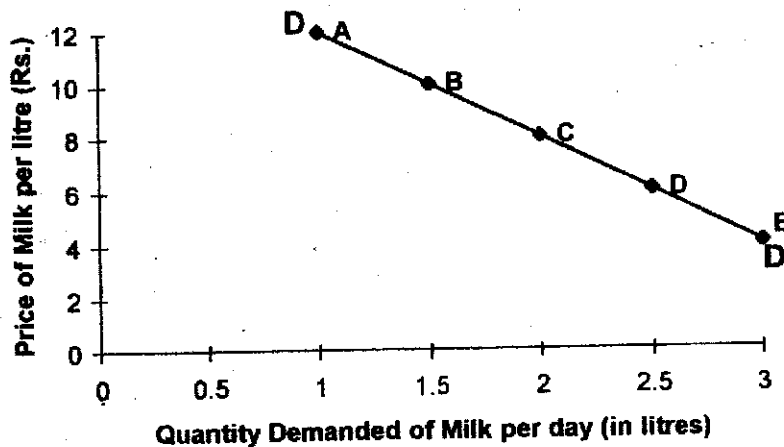


Fig. 15.1 : Individual Demand Curve

In figure 15.1 the points A, B, C, D and E represent the five combinations of price and quantity demanded of milk given in table 15.1. Point A shows that at the price of Rs. 12 per litre the quantity demanded of milk is 1 litre per day. Point B shows the quantity demanded is 1.5 litres when the price is Rs. 10 per litre. Similarly each of the points C, D and E show the quantities demanded at a particular price. If you join points A, B, C, D and E you get a curve. In the figure this curve is labelled DD. This curve is falling from left to right. This shows that as the price of milk falls, its quantity demanded rises. When price is Rs. 12 per litre per day the quantity demanded is 1 litre as shown by point A. When price is Rs. 10 per litre the quantity demanded rises to 1.5 litres per day as shown by point B. Thus a demand curve is downward falling from left to right indicating the inverse relationship between the price of a commodity and its quantity demanded.

### 15.8 MARKET DEMAND SCHEDULE

As explained earlier market demand means the sum of the quantities demanded by all the buyers of a commodity at a given price and during a given period of time. From the individual demand schedules of a commodity we can prepare the market demand schedule of that

commodity. Let us take an example, suppose there are only three buyers A, B and C of milk in the market. The demand schedule of each of these buyers is given in table 15.2.

Table 15.2

Price of Milk per litre (Rs.)	Quantity demanded by each buyer per day (in litres)		
	A	B	C
(1)	(2)	(3)	(4)
12	1.0	0.5	0.0
10	1.5	1.0	0.5
8	2.0	1.5	1.0
6	2.5	2.0	1.5
4	3.0	2.5	2.0

In the above table column (1) shows the price of milk per litre and columns (2), (3) and (4) show the quantities of milk bought by buyers A, B and C respectively at each price. When the price of milk is Rs. 12 per litre, A buys 1 litre per day, B buys 0.5 litre per day and C does not buy it. So if we add the quantities of milk demanded by A, B and C when the price is Rs. 12 per litre, we get the market demand which is equal to 1.5 litres (1+0.5+0). In this way at each price if we add the quantities demanded by A, B and C we get the market demand of milk per day at each price. This is shown in table 15.3.

Table 15.3  
Market Demand Schedule

Price of Milk per litre (Rs.)	Quantity demand per day (in litres)
(1)	(2)
12	1.5 (1.0+0.5+0)
10	3.0 (1.5+1.0+0.5)
8	4.5 (2.0+1.5+1.0)
6	6.0 (2.5+2.0+1.5)
4	7.5 (3.0+2.5+2.0)

Figures in bracket in column 2 of table 15.3 show how the quantity demanded in the market at each price is arrived at. In other words, these figures are the quantities demanded by buyers A, B and C at each price. By adding them we get the market demand.

You must notice that the relationship shown by this schedule between the price of a commodity and its quantity demanded remains the same as shown by the individual demand schedule because market demand schedule is nothing but a summation of individual demand schedules.

### 15.9 MARKET DEMAND CURVE

Just as we plotted the individual demand schedule on a graph paper, if we now plot the market demand schedule, we will get the following figure 15.2

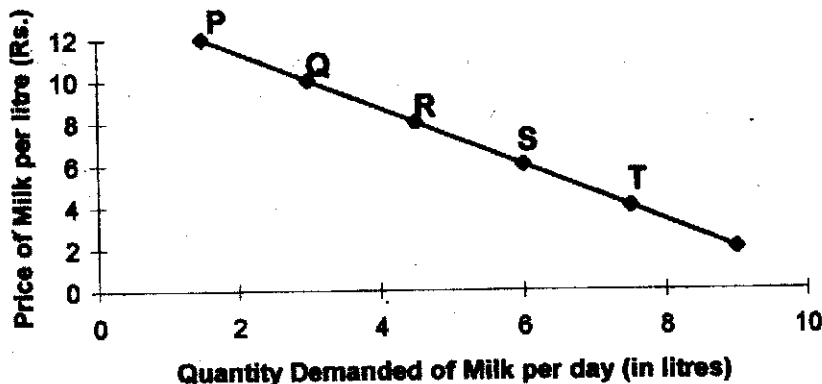


Fig. 15.2 : Market Demand Curve

Points P, Q, R, S and T show the quantity demanded of milk per day in the market at each of the prices given in schedule 15.3. Point P shows that the market demand per day of milk is 1.5 litres when the price of milk is Rs. 12 per litre. Similarly point Q shows that the market demand of milk is 3 litres when price is Rs. 10 per litre. If we join these points we get a curve. This curve is the market demand curve. It shows the total demand per day of all buyers of milk at different prices.

Notice that the market demand curve is also falling downward from left to right indicating the inverse relationship between price of a commodity and its market demand.

### 15.10 THE LAW OF DEMAND

The effects of changes in the price of a commodity on its quantity demanded are stated in the form of a law known as the law of demand.

The law of demand states that other things remaining the same, when the price of a commodity falls, its quantity demanded rises and when the price of a commodity rises, its quantity demanded falls. In other words, other things remaining the same, there is an inverse relationship between the price of a commodity and its quantity demanded. The reasons for this type of relationship between price of a commodity and its demand have



been explained to you in section 15.5 of the lesson. The market demand schedule states this law in the form of a table and the demand curve shows the diagrammatic presentation of this law.

### 15.11 EXCEPTIONS TO THE LAW OF DEMAND

There are some situations in which the law of demand does not apply. These are called exceptions to the law of demand. The following are some of the exceptions to the law of demand :

**(i) Prestige goods :**

There are some goods which are bought because their possession increases the social prestige of their buyers. For example, diamonds are considered as prestige goods and are bought by upper strata of the society. The higher the price of diamonds, the higher would be their prestige value for some. So more diamonds may be bought at higher prices as their prestige value is more at higher prices. If the price of diamonds fall, the prestige conscious people may buy less of diamonds because with fall in price their prestige value has gone down. Thus in such cases there would be a direct relationship between the price and quantity demanded and not an inverse relationship between the price and the quantity demanded.

**(ii) Giffen goods :**

Sir Robert Giffen, a Britisher, observed in early 19th century in Britain that when the price of bread increased, the British workers actually purchased more bread. As per the law of demand they should have purchased less of bread when price of bread rose. But what happened was just opposite of what is stated by law of demand. Why did this happen? Bread and meat was the food of the workers in Britain. When the price of bread increased they faced a serious problem. Had they bought less of bread by spending the same part of their money income on bread and continued to consume same quantity of meat, they would not have been fully fed. They started consuming more of bread and reduced the consumption of meat. In this way they overcame the problem created by the rise in the price of bread. Since Sir Giffen pointed out this situation, such goods are known as Giffen goods. So in case of Giffen goods, the law of demand does not apply.

**(iii) Expectations :**

If the price of a commodity is rising and its buyers expect it to further rise in future, they may buy more of it today as it would save them from buying it at a much higher price in future. So the quantity demanded of this commodity rises though its price is also rising. Similarly, if the price of a commodity is falling and is expected to further fall in future, its buyers may postpone its purchase for the future or may buy less today. So though the price of the commodity is falling, quantity demanded of it is also falling.

However, these are only exceptions to the law of demand. In most of the situations the law of demand applies.

---

**POINTS TO REMEMBER**

- The inverse relationship between price of a commodity and its demand is known as the law of demand.
- Law of demand is based on the assumption that other things remain the same.
- Other things remaining the same means that other factors that affect demand do not change i.e. they do not affect demand and only the price of the commodity is affecting its demand.
- There are some exceptions to the law of demand. These are : prestige goods, giffen goods, those goods whose prices are expected to continue to rise or fall.
- There are two reasons for the inverse relationship between price of a good and its demand : (i) A fall in price of a good increase the purchasing power of its buyer, so he can afford to buy more of it, (ii) A fall in price of a good makes it cheaper in relation to its substitute, so it is substituted for other goods leading to a rise in demand.
- The inverse relationship between price and demand can be shown by a schedule and a curve.
- The demand curve slopes downward from left to right.

**INTEXT QUESTIONS 15.2**

State whether the following statements are true or false.

- (i) The law of demand applies only on essential goods.
- (ii) The law of demand states that other things remaining the same, the price of a commodity and its quantity demanded are inversely related.
- (iii) Other things remaining the same means that other factors affecting demand do not change.
- (iv) The law of demand also applies on goods that have prestige value.
- (v) If the price of a commodity is rising and is expected to continue to rise in future, its quantity demanded will start falling.
- (vi) Price of a good is only one of the factors that affects the demand for a good.
- (vii) Demand curve slopes downward from left to right.
- (viii) Other things remaining the same, when the price of a good rises its demand also rises.
- (ix) An individual demand schedule shows the quantities demanded of a commodity at different prices.
- (x) When the price of a good rises the purchasing power of its buyer also rises.

**15.12 OTHER FACTORS THAT AFFECT THE DEMAND OF A COMMODITY**

You have already studied the effects of changes in the price of a commodity on its demand. You will recollect that while doing so we made an assumption that 'other things remaining

the same' which means that no other factor except the price of the commodity is affecting demand.

Now we study the effects of these other factors on the demand of a commodity. While doing so we assume that the price of the commodity does not change. The other factors that affect the demand of a commodity are :

- (a) Income of the buyer
- (b) Tastes and preferences of the buyer
- (c) Prices of related goods.

We now study the effects of each one of these factors on the demand of a commodity. Remember that we are assuming that there is no change in the price of the commodity.

#### **(a) Income of the buyer**

Price of the commodity remaining the same, an increase in the income of its buyer increases his purchasing power. He can now buy more of this commodity so a rise in income of the buyer of a commodity leads to a rise in its demand. Similarly a fall in income of the buyer of a commodity leads to a fall in its demand, price of the commodity remaining the same. Thus there is a direct relationship between income and demand. Normally, this is how changes in income affect demand. However, in some cases it may be that when the income of the buyer of a commodity increases, he may buy less quantity of it and not more of it. If this happens then the commodity was an inferior commodity for the buyer. As soon as his income increases he prefers to buy less of this inferior commodity and substitutes it by a superior commodity. So if the income of the buyer of a commodity and its demand by him are inversely related then the commodity must be an inferior commodity. Let us take an example, suppose a consumer buys in a month 10 kg. of rice whose price is Rs. 5 per kg. He can't afford to buy better variety of rice because the price of such rice is Rs. 10 per kg. This consumer is spending Rs. 50 per month on the purchase of rice and consumes 10 kg. of rice per month.

Suppose his income increases and now he can afford to spend Rs.60 per month on the purchase of 10 kg. of rice. What will he do? He may now buy some quantity of the rice whose price is Rs. 10 per kg. and may buy less of rice whose price was Rs. 5 per kg. He may buy 8 kg. of rice whose price was Rs. 5 per kg. and 2 kg. of rice whose price is Rs. 10 per kg. Thus he will get 10 kg. of rice by spending Rs. 60 on it in a month. In this way an increase in the income of this buyer of rice has resulted in a fall in the demand for rice that he was buying. Thus the rice that he was buying will be called an inferior commodity.

Hence in case of a normal good, there is a direct relationship between income of its buyer and his demand for it. In case of inferior goods, there is an inverse relationship between the income of its buyer and his demand for it.

#### **(b) Tastes and preferences of the buyer**

The demand for a good is also affected by the tastes and preferences of its buyer. If a consumer no longer likes a commodity, he will not buy it or may buy less of it. Similarly if a

person develops a taste for a good, he may start buying it or may start buying more of it. Thus the demand for a good is also influenced by the tastes of the buyers.

### (c) Prices of related goods

Prices of related goods also affect the demand of a good. Related goods can be of two types : (i) substitute goods, and (ii) complementary goods.

#### (i) Price of substitute goods :

Two goods are said to be substitutes of each other when one can be used in place of other. For example, tea and coffee are substitute goods. If the price of a substitute good rises, the demand of a good, for which it is a substitute, will rise because the buyers of substitute good will buy less of it and more of the other good. For example, if price of tea rises, some buyers of tea may start buying coffee in place of tea. This leads to a rise in demand for coffee because of a rise in price of tea, a substitute of coffee.

#### (ii) Prices of complementary goods :

Two goods are said to be complementary of each other when they are used together. For example, pen and ink or scooter and petrol etc. If the price of pen falls its demand may rise, this will lead to a rise in demand for ink also. So the price of pen has affected the demand for ink.

All these factors other than the price of the commodity, that affect the demand of the commodity are termed as other factors. While studying the effect of any one or more of these other factors on the demand for a good we assume that the price of the good do not change. In other words, at the same price the demand for a good may rise or fall due to changes in any one or more of these other factors.

### POINTS TO REMEMBER

- The other factors that affect the demand of a good are : income of the buyer, tastes and preferences of the buyer and prices of related goods.
- When income of the buyer of a good increases, its demand will increase if it is a normal good. If the good is an inferior good then an increase in income leads to a fall in its demand.
- If the tastes of a buyer become unfavourable for a good, its demand will fall.
- If the price of a substitute rises then the demand for the good will rise.
- If the price of a complementary good falls the demand for the good will rise.

### INTEXT QUESTIONS 15.3

Fill in the blanks with appropriate words given in the brackets:

- (i) The demand for a good is also affected by price of \_\_\_\_\_ (all goods, related goods).

- (ii) In case of a \_\_\_\_\_ good the increase in income of its buyer leads to a fall in its demand (normal, inferior).
- (iii) The demand for a commodity \_\_\_\_\_ when the price of its substitute commodity rises (decreases, increases).
- (iv) The demand for a commodity increases if the price of its complementary commodity \_\_\_\_\_ (falls, rises).

### 15.13 EXPANSION OF DEMAND AND INCREASE IN DEMAND

We distinguish between a rise in the quantity demanded of a commodity due to a fall in its price, other things remaining the same and a rise in demand due to change in other factors while the price of the commodity remains constant. When the quantity demanded of a commodity rises due to a fall in its price, such a rise is called **expansion of demand**. Let us redraw the demand curve of figure 15.1.

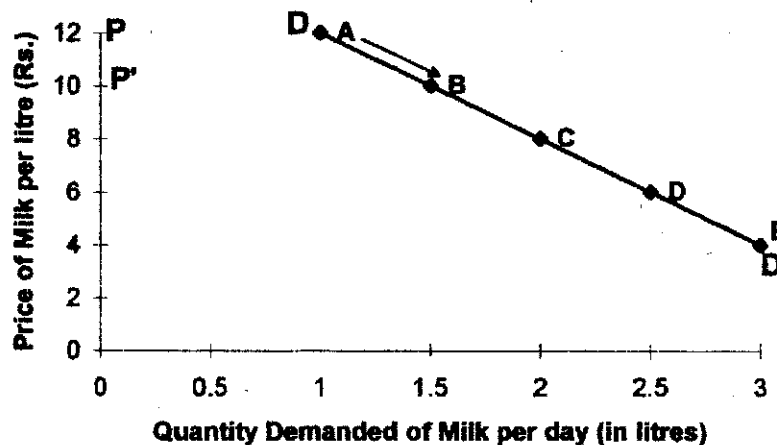


Fig. 15.3 : Expansion of Demand

A movement from point A to point B shows an expansion of demand when price falls from OP to OP'.

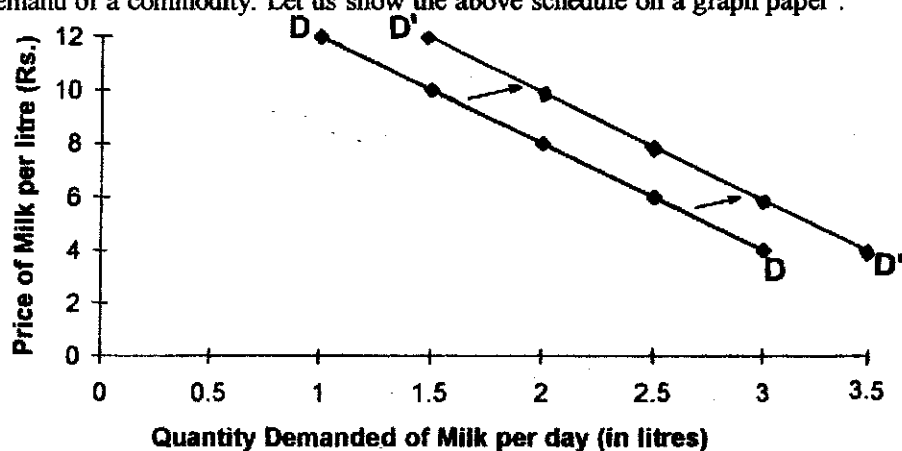
Thus expansion of demand on the diagram would mean a downward movement along the given demand curve.

When the demand of a commodity rises at the same price, it means the rise is due to the changes in any one or more of the other factors that affect demand. Such a rise in demand is called **increase in demand**. Let us show the increase in demand with the help of a schedule given in table 15.4 :

**Table 15.4**  
**Schedule showing Increase in Demand**

Price of Milk per litre (Rs.) (1)	Quantity demanded per day (in litres) (2)	Quantity demanded when demand rises (3)
12	1.0	1.5
10	1.5	2.0
8	2.0	2.5
6	2.5	3.0
4	3.0	3.5

Read the table 15.4 carefully, you will find that at a price of Rs. 12 per litre the quantity demanded of milk rises from 1 litre per day to 1.5 litre per day. Similarly at all other prices the quantity demanded of milk is more. These rises in the demand for milk at the same price. This means that these rises in demand are due to changes in other factors affecting the demand of a commodity. Let us show the above schedule on a graph paper :



**Fig. 15.4 : Increase in Demand**

DD is the demand curve with original quantities as shown in column (1) of the table 15.4 and D¹D¹ is the new demand curve showing the rise in demand at same prices as given in column 2 of the table 15.4. At price Rs. 10 the original demand for milk was 1.5 litres. At the same price the new demand curve (D¹D¹) shows the demand for milk as 2 litres. Notice that when the demand increases, the demand curve shifts rightward.

Thus expansion of demand results in a downward movement along the given demand curve whereas increase in demand results in a rightward shift of the demand curve.

### 15.14 CONTRACTION OF DEMAND AND DECREASE IN DEMAND

A fall in quantity demanded of a commodity due to a rise in its price is called contraction of demand. It would mean a leftward movement on the given demand curve as shown in the figure 15.5.

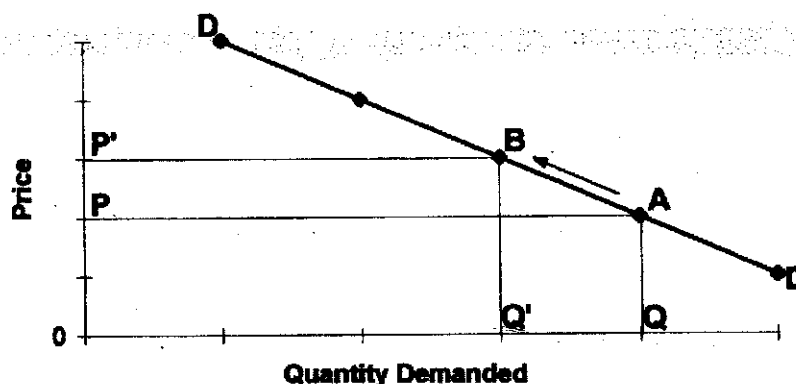


Fig. 15.5 : Contraction of Demand

At price OP the quantity demanded is OQ as shown by point A. When price rises to OP' the new point on the demand curve is B which shows the quantity demanded has fallen from OQ to OQ'. A movement from point A to point B on the demand curve DD is contraction of demand. When demand of a commodity falls at the same price then it is called decrease in demand. Let us prepare a schedule showing the fall in quantity demanded at the same price.

Table 15.5  
Schedule Showing Decrease in Demand

Price of milk per litre (in Rs.)	Quantity demanded per day (in litres)	Quantity demanded when demand falls
(1)	(2)	(3)
12	1.0	0.5
10	1.5	1.0
8	2.0	1.5
6	2.5	2.0
4	3.0	2.5

Quantities of milk shown in column (3) of the schedule shows the fall in demand at the same price. When we draw a diagram from this schedule we will get two demand curves, DD is the demand curve which shows the quantities demanded in column (2) and D'D shows the quantities demanded as per column (3).

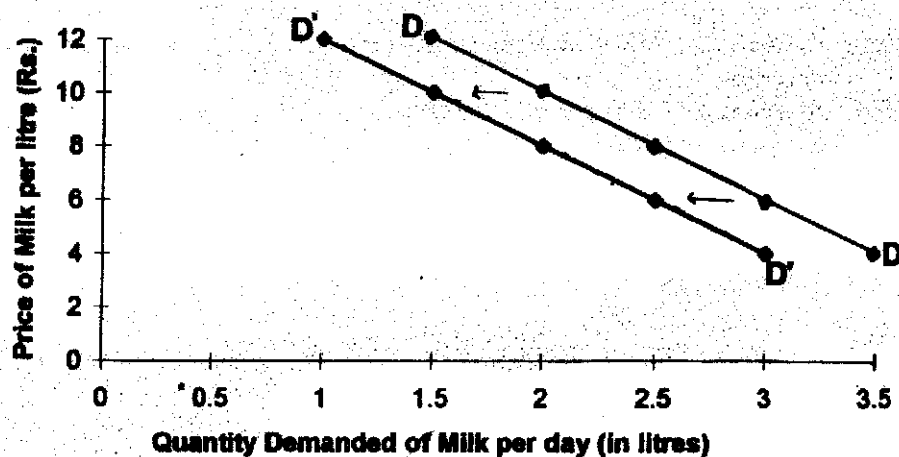


Figure 15.6 : Decrease in Demand

The decrease in demand is shown by a shift in demand curve from DD to D'D'. The new demand curve (D'D') is to the left of the given demand curve (DD).

Thus decrease in demand results in a leftward shift of the demand curve whereas contraction of demand results in a leftward movement along the given demand curve.

### POINTS TO REMEMBER

- When the quantity demanded of a commodity rises due to a fall in its price, it is called expansion of demand.
- In case of expansion of demand, there is a downward movement along the same demand curve.
- When the quantity demanded of a commodity falls due to a rise in its price, it is called contraction of demand.
- In case of contraction of demand, there is an upward movement along the same demand curve.
- When the quantity demanded of a commodity rises due to changes in other factors, price of the commodity remaining the same, it is called increase in demand.
- In case of increase in demand, the demand curve shifts rightwards.
- When the quantity demanded of a commodity falls due to changes in other factors, price remaining the same, it is called decrease in demand.
- In case of decrease in demand, the demand curve shifts leftwards.

### INTEXT QUESTIONS 15.4

Fill in the blanks with appropriate words given in brackets.

- (i) When demand rises due to a fall in price, it is called ..... of demand (expansion, contraction).



- (ii) A rightward shift in demand curve shows ..... in demand (increase, decrease).
  - (iii) A decrease in demand will result in a ..... shift of demand curve (leftward, rightward).
  - (iv) An upward movement along the same demand curve shows ..... of demand (expansion, contraction).
- 

### TERMINAL EXERCISE

1. What is meant by the term 'demand'? Can want or desire for a commodity be treated as demand for the commodity?
  2. Explain the relationship between price of a commodity and its quantity demanded. Draw a demand curve on the basis of a hypothetical demand schedule.
  3. Distinguish between normal goods and inferior goods. Give an example of each.
  4. Distinguish between substitute goods and complementary goods. Give two examples of each.
  5. Distinguish between a movement along the demand curve and a shift in the demand curve and show this diagrammatically.
  6. What are the factors which lead to a shift in the demand curve?
  7. Define the term 'market demand'.
  8. Explain briefly the various determinants of demand.
  9. Explain the law of demand and its exceptions.
-

## ANSWERS

### Intext Questions 15.1

(i) True, (ii) False, (iii) True, (iv) False, (v) False, (vi) True

### Intext Questions 15.2

(i) False (ii) True (iii) True (iv) False (v) False (vi) True (vii) True (viii) False (ix) True  
(x) False

### Intext Questions 15.3

(i) related goods (ii) inferior (iii) increases (iv) Falls

### Intext Questions 15.4

(i) expansion (ii) increase (iii) leftward (iv) contraction

### Terminal Exercise

1. Read section 15.3
  2. Read section 15.6
  3. Read section 15.12 (a)
  4. Read section 15.12 (c)
  5. Read section 15.13 and 15.14
  6. Read section 15.4 and 15.12
  7. Read section 15.8 and 15.9
  8. Read section 15.4
  9. Read section 15.10 and 15.11
-