

**SUBJECT - ECONOMIC**

**LECTURE- 2**

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## ***DETERMINANTS OF DEMAND***

Demand for a product depends upon a number of factors. The most important of these are—

1. the price of the product,
2. income of the consumer,
3. tastes and fashion and
4. the prices of related goods.

the functional form as:  $D_x = f(P_x, I, P_y, T, F\dots)$

Where

$D_x$  = demand of good x;

$P_x$ , = price of good x;

$I$  = income of the consumer;

$P_y$  = prices of related goods;

$T$  = tastes and

$F$  = fashion.

Thus, demand for a commodity depends upon the following factors:

1. Price of the commodity: Price of a commodity is an important factor that determines demand for a commodity. When price of a commodity rises, consumers buy less and when prices fall, demand increases. Here, we assume other things (factors) to be remaining constant,

2. Income of the consumer: The demand for goods depends upon the incomes of the people. The greater the income, the greater will be the demand for a good. More income means greater purchasing power. People can afford to buy more when their incomes rise. On the other hand, if income falls, demand for a commodity also decreases. . Here, we assume other things (factors) to be remaining constant,

3. Prices of related goods: Related goods are of two types—substitute and complements.

Substitute goods can be interchangeably used. For example, tea and coffee are substitute goods. If tea is dearer, one can use coffee and vice versa.

Complementary goods are demanded together as bread and butter or car and petrol.

In case of substitute goods When price of a substitute for a good falls, the demand for that good declines and when price of substitute rises, the demand for that good increases. . Here, we assume other things (factors) to be remaining constant,

In case of complementary goods, the change in the price of any of the two goods also affects the demand of the other. For instance, if demand for two-wheelers fall, the demand for petrol also goes down. . Here, we assume other things (factors) to be remaining constant,

4. Taste and preferences of the consumer: These are important factors, which affects the demand for a product. If tastes and preferences are favourable, the demand for a

good will be large. On the other hand, when any good goes out of fashion or people's tastes and preferences no longer remain favourable, the demand decreases.