Demand Analysis

By

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Introduction:

- Demand analysis is one area of economics that has been used most extensively in business. The whole range of planning by the firm - manpower utilization, production planning, investment decisions, inventory management, profit planning etc. call for a detailed analysis of demand. The market mechanism depends on the forces of demand and supply.
- Demand analysis is important in two ways: (i) it provides a framework for analyzing price and other influences on the sales of the firm's products and (ii) it provides a baseline for pricing products, and marketing generally, and for forecasting and manipulating demand.

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- Alfred Marshall compares price determination (through market mechanism) to cutting a paper with a pair of scissors. It means the two blades are demand and supply. Just as the process of the cutting with a pairs of scissor involves the function of both blades. Smilarly the function of price determination involves the working of demand and supply together. Either of the two by itself cannot determine price.
- Demand analysis is concerned with the economic activities of a consumer i.e. consumption. The process through which a consumer obtains the goods and services he wants to consume is known is called demand.

What is Demand?

- Demand means effective desire or want for a commodity which is backed up by the ability and willingness to pay for it.

Demand Scheduled and Demand Curve:

- Demand scheduled is a table which shows the various amounts of a product which consumers are willing and able to purchase at each specific price in a set of possible prices during some specified period of time. There are two kinds of demand schedules

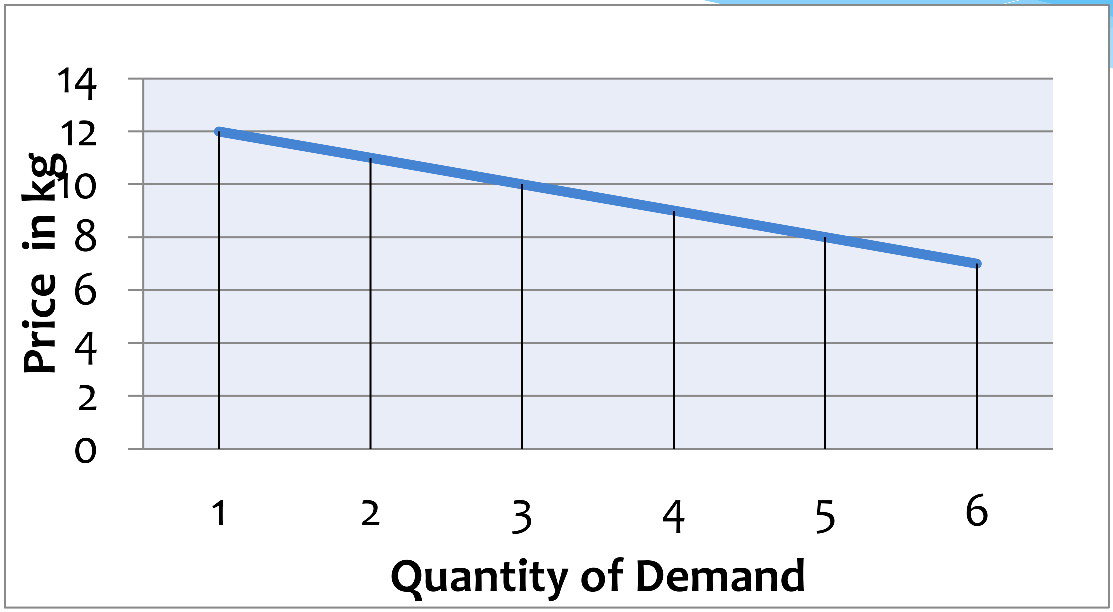
  1. **Individual Demand Schedule-**
  2. **Market Demand Schedule-**

1. Individual Demand Schedule-

The demand of an individual customer for a commodity is called individual Demand. The following table shows that demand schedule for a consumer.

Price of apples (Rs. per kg)	Quantity of Demand (In kg)
12	1
11	2
10	3
9	4
8	5
7	6

Demand Curve:



It is seen in the above diagram that when the price of apples is 12 rupees per kg , only 1 kg for apples are demanded. When the price comes down to the 7 rupees per kg, the consumer buy 6 kg for it.

Hence, we seen an inverse relationship between the price and quantity of demand.

2. Market Demand Schedule:

- In the market there are a large number of consumers. Market demand means the demand of all the consumers in the market for a good at a particular price.
- Market demand schedule shows the total demand of all the consumers in the market at various prices. It can be constructed by the summation of the individual demand schedules of all individuals in the market.

Market Demand Schedule for Apples

Price	Quantity -A	Quantity -B	Quantity - A +B
12	1	2	3
11	2	3	5
10	3	4	7
9	4	5	9
8	5	6	11

Determinants of Demand:

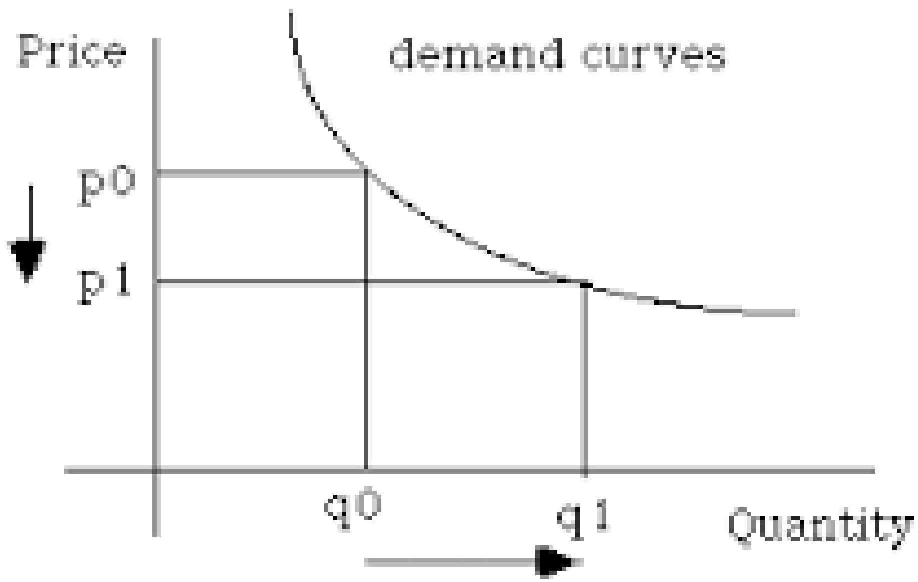
There are many factors on which the demand for a commodity depends. These are known as determinants of demand.

- Price of the Commodity-
- Tests, Preferences and Fashions-
- Consumer’s Expectations about the future Price and Supply -
- Advertisements of the Product-
- Climate and Weather Conditions-
- Level and Distribution of Income and Wealth-
- Change in Savings-
- State of Business-
- Technical Progress-
- Government Policy-

Law of Demand:

- The law of demand is one of the best known and the most important laws of economic theory. This law simply expresses the relationship between the quantity of a commodity and demanded and its price.
- ***Prof. Samuelson:-*** *"Law of Demand states that people will buy more at lower prices and buy less at higher prices, if other things remaining the same".*
- **Assumptions of the Law of Demand:**

1. No change in tests, preferences of consumers
2. Consumers income remains the same
3. The prices of related goods do not change
4. Wealth of the consumers or their test remains constant



This diagram shows that, price is measured along the Y axis and quantity is measured along the X axis. The demand curve is downward sloping which is an accordance with the law of demand.

Thank You…!