Factors affecting individual demand for a commodity

The following factors affect the individual demand for a commodity:

1. Price of the commodity
2. Price of related goods
3. Income of buyer of the commodity
4. Tastes and Preferences of the buyer

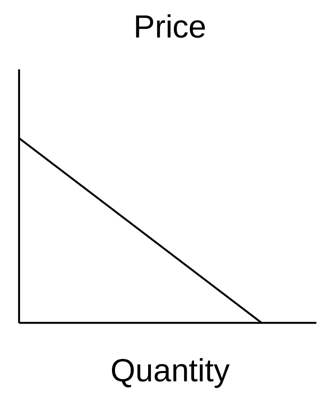
1. Price of the commodity

Law of Demand

a consumer's demand for a good is inversely related to the price of the good.

If price of a commodity falls, its quantity demanded increases and if price of the commodity rises, its quantity demanded falls.

Demand curve:



Exception to law of demand

1. **Giffen goods** -Giffen goods are special type of inferior goods (like food items e.g. Rice, Flour, Salt, Jowar and Bajra etc.) which do not follow law of demand as their demand rises when their price rises because people start buying more of these goods thinking of shortage and further increase in price in future.

e.g. Recently People in different part of country started buying salt at higher prices.

2**. Status Symbol Goods/Veblen Goods -**Some goods are used by rich people as status symbols, e.g. diamonds, designer jewellary, luxury cars etc. The higher the price, the higher will be the demand for these goods.

When price of such goods falls, these goods are no longer looked at as status symbol goods and, therefore, their demand falls.

3. Necessities -Commodities such as medicines, salt, wheat etc. do not follow law of demand because we have to purchase them in minimum required quantity, whatever their price may be.

4. Goods Expected to be Scarce -When the buyers expect a scarcity of a particular good in near future, they start buying more and more of that good even if their prices are rising. For example, during war, famines etc. people tend to buy more of some goods even at higher prices due to fear of their scarcity in near future.

2. Price of related goods

Related goods

The demand for a commodity is also influenced by the prices of its related goods. Related goods can be of two types

Substitutes (i.e. Alternative)	Substitute goods are those goods which can easily be used in place of each other. Goods like tea and coffee are not consumed together. They are substitutes for each other. If price of coffee increases, people will demand more of tea and thus demand for tea will increase. If price of coffee falls, people will demand more of coffee and thus demand for tea will fall. So, the demand for a commodity is directly related to the price of its substitute goods.
Complements	Goods which are consumed together are called complementary goods. E.g. tea and sugar, pen and ink. Since tea and sugar are used together, an increase in the price of sugar is likely to decrease the demand for tea and a decrease in the price of sugar is likely to increase the demand for tea. Hence, demand for a commodity is inversely related to the price of its complementary goods.

Q-8 CDS-2015
When two goods are interchangeable, they are
(a) Perfect substitutes (b) Perfect complements (c) Giffen goods (d) Veblen goods

3. Income of buyer of the commodity

Inferior goods

Demand for inferior (affordable) goods decreases when income increases as consumers of inferior goods move to costly substitutes. When income decreases then demand for inferior goods increases

e.g. a Person is using public transport for office. When income increases he is likely to buy bike or car for that purpose.

In india, rail travel is an inferior good. When income increases Person is likely to travel by Air instead of Train.

4. Tastes and Preferences of the buyer

The demand for a commodity is also affected by the tastes and preferences of the buyers. They include change in fashion, customs, habits etc. Those commodities are preferred by the consumers which are in fashion. So, demand for those commodities rises which are in fashion. On the other hand, if a commodity goes out of the fashion, its demand falls because no consumer will like to buy it.

Elasticity of Demand

Price elasticity of demand is the **degree of responsiveness** of demand for a commodity to the change in its price.Demand for food does not change much even if food prices go up. Hence demand for a necessity is likely to be price inelastic.

On the other hand, demand for luxuries can be very responsive to price changes. Hence demand for a luxury good is likely to be price elastic.

Durable use goods

Durable use goods are those goods, which **can be used again and again** for a long period of time. There are durable use consumer goods as well as durable use producer goods.

Durable use **consumer goods** are cloth, furniture, television, scooter etc. that can be used by consumer again and again.

Durable use **producer goods** are used in production again and again for example, machines, tools, tractors etc. this does not mean that repeated use of these goods does not make any difference to them. In fact the value of these goods gets depreciated after continuous use.

Public goods

Public goods are those goods, which are owned and enjoyed by the society as a whole. For example roads, bridges, park, town hall, street lighting etc. are all collectively owned. They are available to all people in a society without any discrimination, i.e. no one is denied from the consumption of public goods. Both government and private entrepreneurs may produces public goods.

They display the characteristics of non-rivalry and non excludability. Non- rivalry means that consumption by one person does not reduce the amount available for another and non-excludability means that once the goods is provided it is not possible to stop people benefiting from it (e.g. lighthouses).

Q-13 CDS-2015
What is meant by 'Public Good'?
(a) A commodity produced by the Government
(b) A commodity whose benefits are indivisibly spread among the entire community
(c) A Government scheme that benefits the poor households
(d) Any commodity that is very popular among general public

Q-14 CDS-2016
Which of the following is not a ' Public Good' ?
(a) Electricity (b) National Defence (c) Light House (d) Public Parks

Merit goods and Demerit goods

A merit good or service is something that adds to the welfare and well-being of society when it is produced and consumed. E.g. Pharma Company producing a vaccine for children against Hepatitis B, Educational institutions etc. Government encourages the production of merit goods and hence they are taxed at very low rates.

Demerit goods or services, in contrast, are those known to cause clear harm when produced and consumed. Examples are alcohol, cigarettes, tobacco products etc. They are taxed at very higher rates to discourage the production but there contribute very much to the Govt revenue that is why Govt hesitant to ban the production.

How does a firm decide how much to produce?

Maximum Profit	A firm is a profit maximizer. So, the quantity that a firm produces and sells in the market is that which maximizes its profit.
Equilibrium price	Price at which both quantity demanded and quantity supplied of a commodity are equal. In this way, the price of a commodity is determined by the forces of demand and supply in the market.
Equilibrium quantity	At equilibrium price quantity demanded and quantity supplied of a commodity are equal. This quantity is called the equilibrium quantity of the commodity.
Price change	Whenever market supply is not equal to market demand, there will be a tendency for the price to change
Price will rise	If demand increases and supply remains the same
Price will fall	If supply increases and demand remains the same

Q -9 CDS-2014

Which of the following statements is / are true ?
1. If increase in demand and supply are of equal magnitude, the price will remain unchanged, but the equilibrium quantity will increase.
2. If increase in demand is of greater magnitude than increase in supply, both equilibrium price and equilibrium quantity will increase.
3. If increase in supply is of greater magnitude than increase in demand, equilibrium price will fall but equilibrium quantity will increase.

Select the correct answer using the code given below :
(a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2 and 3

Q-10 NIOS

Equilibrium price of a commodity is the price at which
(a) Quantity demanded and supplied, both rise
(b) Supply is maximum'
(c) Demand is maximum
(d) Quantity demanded and supplied are equal.

Q-11 NIOS

Equilibrium means
(a) The variables are changing continuously
(b) Demand and supply are unequal
(c) The variables show no tendency to change
(d) None of the above

Q-12 NIOS

If at some particular price, the quantity demanded exceeds its quantity supplied, then
(a) Price will rise
(b) Demand will fall
(c) Supply will increase
(d) All of the above