

# **MANAGERIAL ECONOMICS AND FINANCIAL ANALYSIS**

## **Online Lecture Series Topic: Demand Analysis Lecture-05**



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# Topics to be covered

Demand Analysis

Determinants of Demand

Types of Demand

# DEMAND ANALYSIS



# DEMAND ANALYSIS

*Different perspectives*

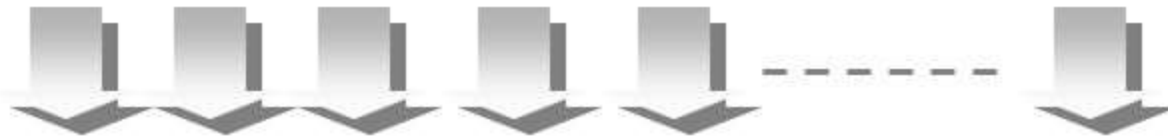
**Consumer choices (utility theory)**



**Individual Demand**



**Market Demand**



**Demand to the firm**

# WHAT IS DEMAND?

“Demand means effective desire or want for a commodity which is backed up by the ability (purchasing power) and willingness to pay for it”.

- Demand = Desire + Ability to pay + Willingness to spend
- Demand is a relative concept – not absolute  
It is related to price , time and place.

“The demand for a commodity refers to the amount of it which will be bought per unit of time at a particular price ( in a particular market)”.



# MEANING OF DEMAND ANALYSIS

## Meaning...

Refers to the desire, backed by the necessary ability to pay.

Demand is a buyer's willingness and ability to pay a price for a specific quantity of a good or service.

Demand refers to how much (quantity) of a product or service is desired by buyers at various prices. The quantity demanded is the amount of a product people are willing to buy at a certain price.

The relationship between price and quantity demanded is known as the demand.



# Aspects of Demand...

Desire for specific commodity.

+

Sufficient resources to purchase the desired commodity.

+

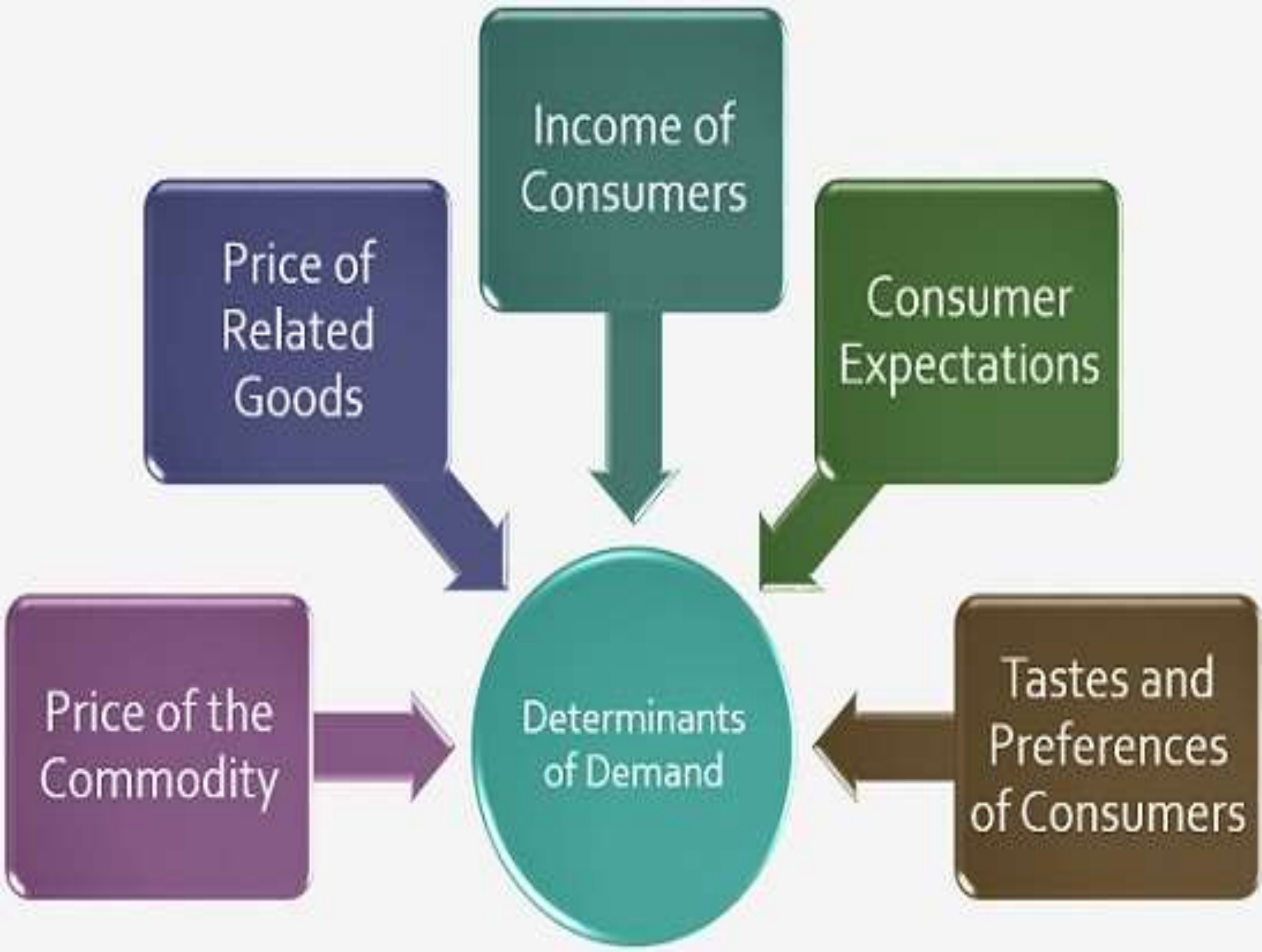
Willingness to spend the resources.

+

a. Availability of the commodity at

- (i) Certain price (ii) Certain place (iii) Certain time.







# DETERMINANTS OF DEMAND

- ❑ Price of the product
- ❑ Price of the related goods
- ❑ Consumer's income level
- ❑ Distribution pattern of national income
- ❑ Consumer's taste and preferences
- ❑ Advertisement of the product
- ❑ Consumer's expectation about future price and supply position
- ❑ Demonstration effect and Band-Wagon effect
- ❑ Consumer credit facility
- ❑ Demography and growth rate of population
- ❑ General std. of living and spending habits
- ❑ Climatic and weather conditions
- ❑ Customs

→ **Demand Function:** It states the (functional/mathematical) relationship between the demand for the product ( dependent variable) and its determinants ( independent variables).

# Other Determinants

- SEASONAL CONDITIONS
- COMPLEMENTARY GOODS
- SUBSTITUTE GOODS



# DETERMINANTS OF DEMAND

## Five Determinants of Demand with Examples and Formula

$$q_D = f$$

$f$  = price, income, prices of related goods, tastes, expectations



1 Price of Good or Service



5 Expectations



2 Income of Buyers



3 Prices of related goods or services



4 Tastes of Consumers



# Determinants of Demand



Availability of substitutes



Cost of switching suppliers



Breadth of definition



Degree of necessity



Time frame when making a choice



Brand loyalty



Percentage of income spent



Habitual demand



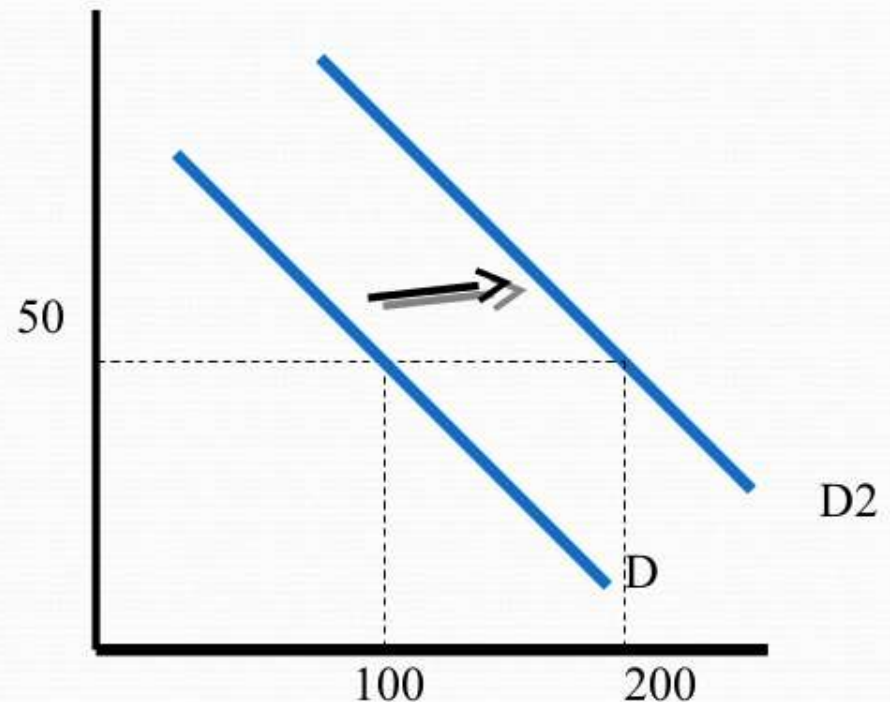
# Changes in consumer tastes

- Consumer preferences likes and dislikes in consumption assumed to be constant along a given demand curve assumed constant along a given demand curve
- Changes in taste will cause a shift in the demand curve as different quantities are demanded at each and every price.



# Changes in taste

- Consumers prefer platform shoes.
- At 50, demand increases from 100 to 200.



# Causes of Increase in Demand

- Increase in consumer income
  - Causes consumers to buy more of the product at each and every price.
  - Normal goods
  - Inferior goods





# Causes of Decrease in Demand

- Decrease in consumer income
  - Causes consumers to buy less of the product at each and every price.





# Changes in the price of related goods

- **Complements**

- Goods that are related in a such a way that an increase in the price of one shifts the demand of the other leftward
- Two goods that are consumed jointly.
- **An decrease in the price of one will increase demand for the other**



# Changes in Price of Related Goods

## ● Substitutes

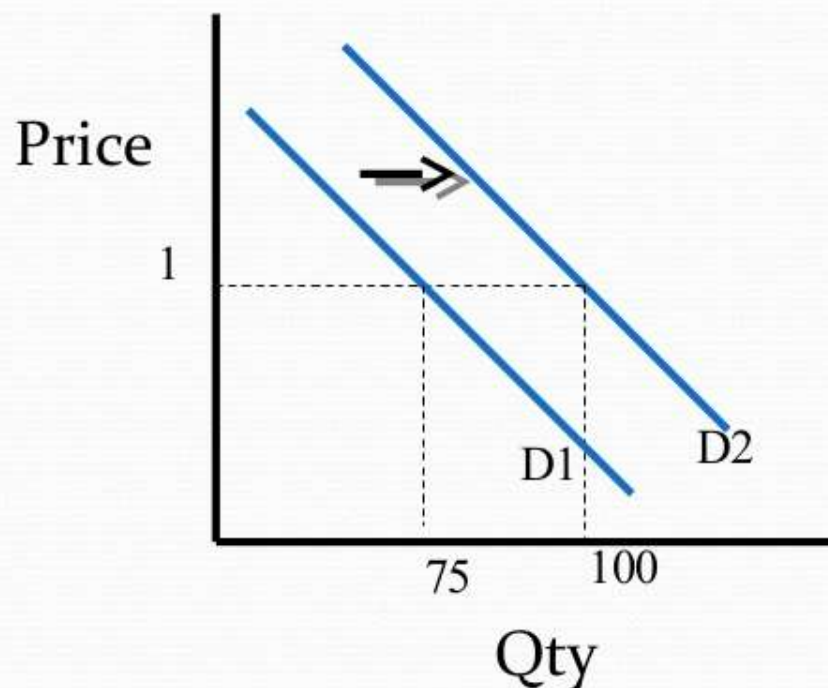
- Goods that are not consumed jointly
- Goods that are related in such a way that an increase in the price of one shifts the demand curve for the other rightward.
- **Increase in price of Coke leads to increase in demand for Pepsi**



# Changes in Price of Related Goods

- Substitutes

- Suppose that the price of Coke rises from 1 to 1.50, then the demand for Pepsi will decrease from 75 to 100.





# Change in consumer income

- **Normal goods**

- A good for which demand increases as consumer income rise



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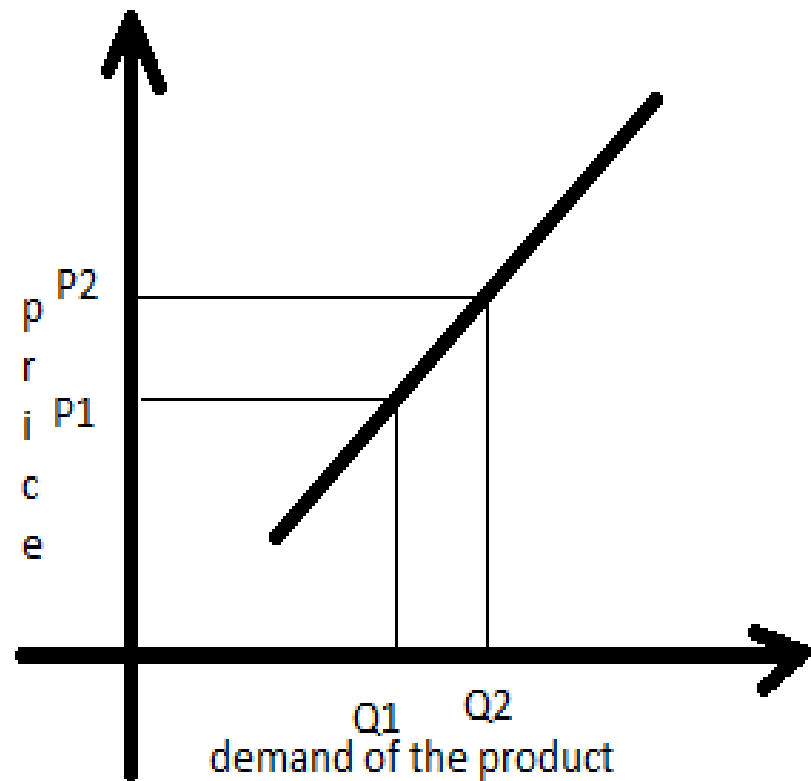
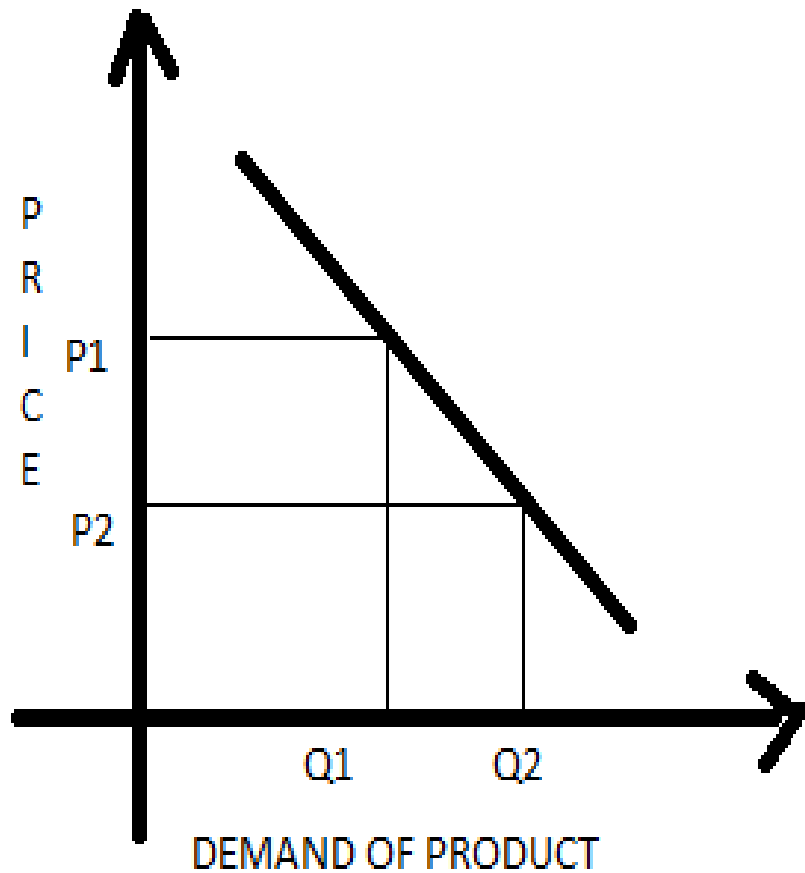
- **Inferior goods**

- A good which demand increases as consumer income falls

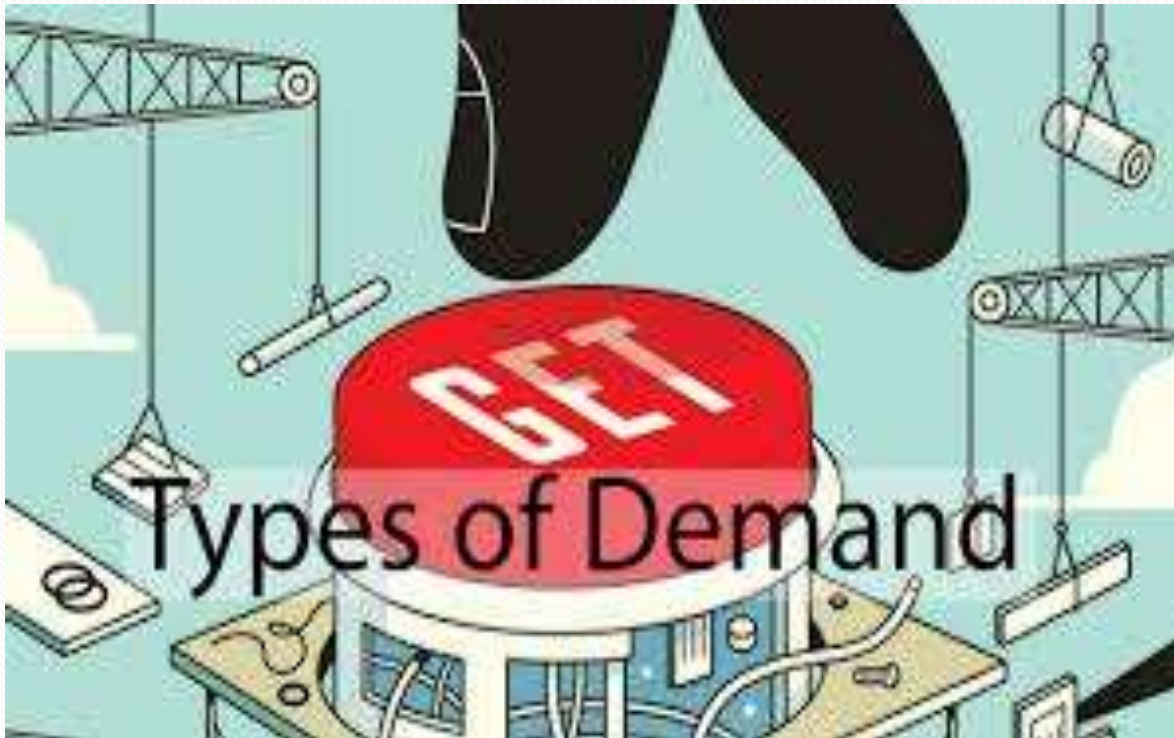




# DEMAND CURVE AND EXCEPTIONAL DEMAND CURVE



# ***TYPES OF DEMAND***



# **Demand**

```
graph LR; Demand[Demand] --- A[Individual Demand and Market Demand]; Demand --- B[Total Market Demand and Market Segment Demand]; Demand --- C[Derived Demand and Direct Demand]; Demand --- D[Industry Demand and Company Demand]; Demand --- E[Short-Run Demand and Long-Run Demand]; Demand --- F[Price Demand]; Demand --- G[Income Demand]; Demand --- H[Cross Demand];
```

Individual Demand and Market Demand

Total Market Demand and Market Segment Demand

Derived Demand and Direct Demand

Industry Demand and Company Demand

Short-Run Demand and Long-Run Demand

Price Demand

Income Demand

Cross Demand

# Types of Demand

## On the Basis of User

- Demand for Producer Goods
- Demand for Consumer Goods

## On the Basis of Dependency on Other Commodity

- Autonomous Demand
- Derived Demand

## On the Basis of Scale of Usage

- Company Demand
- Industry Demand

## On the Basis of Impact Over Time

- Short Run Demand
- Long Run Demand

## On the Basis of Durability

- Demand for Durable Goods
- Demand for Non-Durable Goods



# Consumer Goods Vs Capital Goods





# Total Market and Market Segment Demand

The total market aggregates on the basis of geographical areas, price sensitivities ,sub product, product uses , distribution channels, customer size, genders etc.



Market segment demand differs on the basis of profit margins, seasonal pattern and market compaction.



# Individual and market demand

It is based on an individual's personal taste, income and price of the commodity.



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It decides the market strategy for the sales of any commodity, like Its price business policy and planning.







*THANK YOU*