Chapter 3: Demand Analysis

Question: 1

Fill in the blank with appropriate alternatives given below

When price of commodity rises, the demand for it _______________.

Options

- rises
- contracts
- remains constant
- becomes negative

Solution

When price of commodity rises, the demand for it **contracts**.

Explanation:

When the price of a commodity increases, other things are kept constant, the demand for the commodity falls/contracts and vice versa.

Question: 2

Fill in the blank with appropriate alternatives given below:

When less is purchased at the constant price, it is called ________ in demand.

Options

- increase
- decrease
- expansion
- contraction

Solution

When less is purchased at the constant price, it is called **decrease in demand**.

Explanation:

Decrease in demand is a condition when the demand for good decreases due to a change in factor other than the price of the commodity. Accordingly, less is purchased even when the price is constant. Some of the factor causing decrease in demand are decrease in income, moving of taste and preferences away from the commodity and rise in prices of other goods.

Question: 3

Fill in the blank with appropriate alternatives given below:

When the price of petrol goes up, demand of cars will ____________.

Options

- rise
- fall
- not change
- remain unchanged

Solution

When the price of petrol goes up, demand of cars will **fall**.

Explanation:

Cars and petrol are complementary goods, i.e., goods that are demanded together. In such cases, a rise in the price of one leads to a fall in the demand for the other good. Thus, a rise in the price of petrol will lead to a fall in the demand for cars.

Question: 4

Fill in the blank with appropriate alternatives given below:

Market demand is an aggregate of purchasing by __________ buyers.

Options

- some
- all
- one
- two

Solution

Market demand is an aggregate of purchasing by **all** buyers.

Explanation:

Market demand is the aggregate (total) of the individual demands for a product by all consumers in the market at different prices.

Question: 5

Fill in the blank with appropriate alternatives given below:

Indirect demand is also known as ______________ demand.

Options

- derived
- direct
- composite
- joint

Solution

Indirect demand is also known as **derived** demand.

Explanation:

When goods are demanded so that they can be used in the production of some other commodity, it is called indirect or derived demand. In other words, such demand is derived as a result of the demand/consumption of some other commodity. Cement, for example, has indirect/derived demand as a result of demand for construction of buildings.

Question: 6

Match the following:

Group A	**Group B**
1. Demand and price	a. Substitute goods
2. Tea and coffee	b. Inverse relation
3. Inferior goods	c. Joint demand
4. Factors of production	d. Distribution of income
5. Pen and ink	e. Composite demand
	f. Giffen goods
	g. Indirect demand

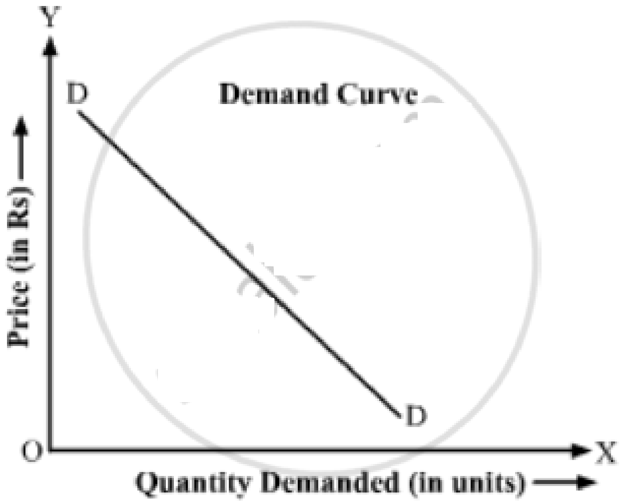
Solution

Group A	**Group B**
1) Demand and price	b) Inverse relation
2) Tea and coffee	a) Substitute goods
3) Inferior goods	f) Giffen goods
4) Factors of production	g) Indirect demand

5) Pen and ink	c) Joint demand

1. Demand and price - Inverse relation

Other things remaining constant, as the price of a good rises (or falls), the quantity demanded of the good falls (or rises). Thus, the price of a good and the quantity demanded of the good share a negative relationship or an inverse relationship.



2. Tea and coffee - Substitute goods

Substitute goods refer to those goods that can be consumed in place of each other. In other words, they can be substituted for each other. For example, tea and coffee are substitute goods. In such cases if price of one of them increases, the consumer substitutes it for other good.

3. Inferior goods - Giffen goods

Giffen goods are the goods that are highly inferior. Such goods share a positive relationship with the price. That is as the price of the good increases the demand increase. This is because such goods have strong income effect.

4. Factors of production - Indirect demand

When goods are demanded not for direct consumption but for use in the production of other goods, the demand for such goods is known as indirect demand. All the factors of production have indirect demand, as they are used in the production of other goods.

5. Pen and ink - Joint demand

Two or more goods are said to have a joint demand when these goods are demanded together to satisfy a single want. Without the other they will not be demanded. Accordingly, pen and ink have a joint demand.

Question: 7

State whether the following statement is TRUE and FALSE
Demand curve slopes upward from left to right.

Solution

FALSE

The demand curve is the graphical representation of the relationship between the demand for a good and its price for a given income, price of related goods, tastes and preferences. This curve slopes downwards from left to right because of the negative relationship between the price of the commodity and its demand. In the diagram below, DD is the demand curve.

Question: 8

State whether the following statement is TRUE and FALSE
Desire means demand.

Solution

FALSE

Desires refer to those wishes that a human being cherishes such as to walk on the moon, to be a billionaire and to buy a Rolls-Royce. These wishes may not always be backed by enough finance to realise them. It is only when a desire is backed by sufficient purchasing power, along with the consumer's readiness to spend on materialising the wish, it becomes demand. Thus, until a consumer has sufficient money and he/she is willing to spend, a desire will remain a desire.

Question: 9

State whether the following statement is TRUE and FALSE
When demand increases, the demand curve shifts to the left.

Solution

FALSE

When demand increase, i.e. when the demand for the good increase as a result of a change n factors other than price, the demand curve shifts parallel towards right. On the other hand, when demand decrease, the demand curve shifts to the left.

Question: 10

State whether the following statement is TRUE and FALSE
Quantity demanded varies directly with price.

Solution

Quantity demanded has an inverse relation with the price of a commodity. Other things remaining constant, as the price of the commodity increases, the quantity demanded decreases, and vice-versa.

Question: 11

State whether the following statement is TRUE and FALSE
Law of demand is explained by Prof. Robbins.

Solution

FALSE

The law of demand was postulated by Dr. Alfred Marshall in his book 'Principles of Economics'. According to the Law of Demand, other things remaining constant, as the price of a commodity increase, the quantity demanded of it falls and vice-versa.

Question: 12

State whether the following statement is TRUE and FALSE
Individual demand is a demand by single buyer.

Solution

Individual demand is the demand of a commodity by a particular consumer. It represents various quantities of a particular commodity that a consumer (single buyer) is willing to purchase at different possible prices at a particular point in time.

Question: 13

Define or explain the following concept:
Demand

Solution

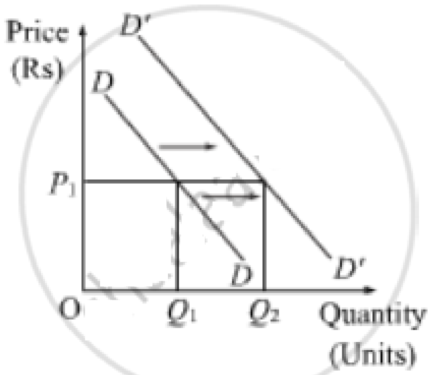
Demand for a commodity refers to the quantity of a commodity that a consumer is willing and is able to purchase at a particular price at any particular point in time. For example, a consumer demands 2 kg sugar at Rs 10 per kg and 3 kg sugar at Rs 8 per kg.

Question: 14

Define or explain the following concept:
Increase in demand

Solution

When the demand for a good increases with the change in factors other than the price of the good, it is called increase in demand. Some of the factors that lead to increase in demand is rise in income, developing a taste and preferences for the commodity, rise in the price of related goods, etc. Graphically, an increase in demand is represented by a parallel rightward shift of the demand curve.



Increase in Demand

Question: 15

Define or explain the following concept:
Derived demand

Solution

When goods are demanded so that they can be used in the production of some other commodity, it is called indirect or derived demand. Thus, in such cases the demand for a commodity is dependent on the demand for the commodity in the production of which it would be used. For instance, when wood is demanded for making furniture, wood is said to have derived demand. As the demand for furniture increases, the demand for wood also increases and vice-versa.

Question: 16

Define or explain the following concept:
Direct demand

Solution

Demand for the goods that are purchased for direct consumption and are not used as intermediate goods is referred to as direct demand. For instance, goods like clothes and food have a direct demand, as they are meant for final consumption. The demand for such goods does not depend on the demand for any other commodity.

Question: 17

Define or explain the following concept :
Market demand schedule

Solution

The market demand schedule shows the aggregate (total) demand for a product by all consumers in the market at different prices. The following is a market demand schedule.

Price of X (Rs)	Quantity Demanded by Consumer 1 (Units)	Quantity Demanded by Consumer 2 (Units)	Market Demand (Units)
10	5	6	5 + 6 = 11
15	4	5	4 + 5 = 9

Question: 18

Give reason or explain the following statement.
All desires are not demand.

Solution

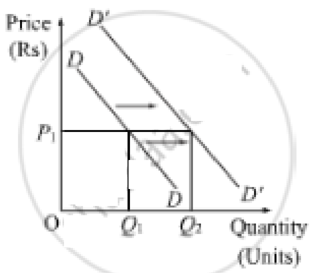
Desires refer to those wishes that a human being cherishes such as to walk on the moon, to be a billionaire and to buy a Rolls-Royce. These wishes may not always be backed by enough finance to realise them. It is only when a desire is backed by sufficient purchasing power, along with the consumer's readiness to spend on materialising the wish, that it becomes demand. Thus, until a consumer has sufficient money and he/she is willing to spend, a desire will remain a desire. Thus, we can say that all desires are not demand.

Question: 19

Give reason or explain the following statement.
Increase in demand indicates a rightward shift in the demand curve.

Solution

When the demand for a good increases due to a change in the factors other than the price of the good, it is called increase in demand. Graphically, it is shown by a parallel rightward shift of the demand curve.



Increase in Demand

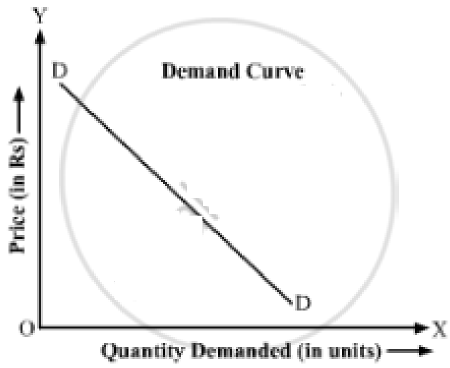
Parallel rightward shift shows that even at constant prices the quantity demanded of the good rises.

Question: 20

Give reason or explain the following statement.
Demand curve slopes downward from left to right.

Solution

Demand curve is the graphical representation of the relationship between the demand for a good and its price, for a given income, price of related goods, tastes and preferences. This curve slopes downwards from left to right because of the negative relationship between price of the commodity and its demand.



Question: 20

Give reason or explain the following statement.
Demand for factors of production is derived demand.

Solution

When goods are demanded so that they can be used in the production of some other commodities, it is called indirect or derived demand. Factors of production have an indirect or derived demand, as they are used in the production of goods meant for final consumption. For example, labour is a factor of production. However, labour would be demanded according to the demand of the commodity in the production of which it would be used. For example demand for labour in furniture producing firm would depend on the demand for furniture. The greater the demand for furniture, the production of furniture would tend to rise, thereby, the demand for labour used in the production of furniture would also increases.

Question: 21

Distinguish between:
Desire and demand

Solution

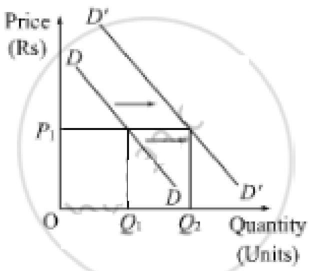
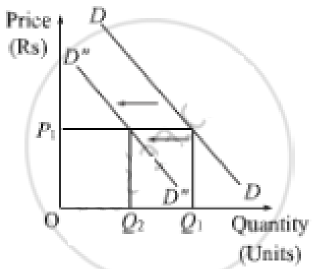
Desire	Demand
Desires refer to those wishes that a human being cherishes.	Demand refers to the quantity of goods that individuals are willing to buy.
They may or may not be	It should be backed by financial power.

backed by financial power.	
For example: Walking on the moon	For example, a consumer demands 2 kg sugar at Rs 10 per kg and 3 kg sugar at Rs 8 per kg.

Question: 22

Distinguish between:
Increase in demand and decrease in demand

Solution

Increase in Demand	Decrease in Demand
More quantity is demanded because of the change in factors other than price.	Less quantity is demanded because of the change in factors other than price.
It leads to a rightward shift in the demand curve.	It leads to a leftward shift in the demand curve.
 Increase in Demand	 Decrease in Demand

Question: 23

Distinguish between:
Individual demand and market demand

Solution

Individual Demand	Market Demand
It refers to the demand for a product by a single consumer.	It refers to the demand for a product by all consumers in the market.
The demand curve for individual demand is relatively steeper.	The demand curve for market demand is relatively flatter.
It represents various quantities of a particular commodity that a consumer (single buyer) is willing to purchase at different possible prices.	It represents various quantities of a particular commodity that all consumers in the market are willing to purchase at different possible prices.

Question: 24

Distinguish between:
Inferior goods and superior goods

Solution

Inferior Goods	Superior Goods
They have a negative relationship with the income of a consumer.	They have a positive relationship with the income of a consumer.
For example - Maize	For example - Branded clothing

Question: 25

Write short note:
Giffen's paradox

Solution

We know that, according to the Law of Demand, when the price of a commodity falls the demand for it rises. However, giffen goods are an exception to this Law. In case of giffen goods, the demand shares a positive relationship with price. As the price of giffen goods fall the demand for such goods falls. This is because as the price falls, the real income of the consumer rises and thereby, the consumer shifts to better superior quality goods. Such goods are highly inferior goods. It is named after the 19th century British economist, Sir Robert Giffen, who found that when the price of bread fell, the demand for it also fell.

Question: 26

Write short note:
Types of demand

Solution

The following are the various types of demand.

1. **Direct demand** - Demand for goods that are meant for direct consumption is known as direct demand. For instance, goods like clothes and food have direct demand, as they are meant for final consumption.

2. **Indirect demand** - When goods are in demand so that they can be used in the production of some other commodity, it is called indirect or derived demand. For instance, factors of production have indirect demand, as they are used in the production of goods meant for final consumption.

3. **Joint demand** - Two or more goods are said to have a joint demand only when these goods are demanded together to satisfy a single want. For instance, pen and ink are demanded together; therefore, they have a joint demand.

4. **Composite demand -** It refers to the demand for commodities that are used to satisfy various wants at the same time. For instance, water is used for satisfying several wants.

5. **Competitive demand -** It refers to the demand for goods that face high competition from their close substitutes, for instance, Coke and Pepsi.

Question: 27

Write short note:
Concept of demand

Solution

Demand for a commodity refers to the quantity of a commodity that a consumer is willing and is able to purchase at a particular price at any particular point of time. In the concept of demand besides ability to purchase, the ability to purchase is also important. It is only when the consumer has sufficient purchasing power the willingness to purchase the commodity can be regarded as demand. Without the purchasing power, the willingness to purchase is only a desire. For example, an individual may be willing to purchase a house. But it can be termed as demand only when the consumer has sufficient purchasing power for the same.

Question: 28

Answer the following question
What do you mean by demand?

Solution

Demand for a commodity refers to various quantities of the commodity that a consumer is willing to purchase at various possible prices. For example, a consumer demands 2 kg sugar per week at Rs 10 per kg and 3 kg sugar per week at Rs 8 per kg. It must be noted that price of commodity and time are two important elements when referring demand.
Demand for a commodity has the following features.

1. Utility derived from consumption of a commodity is the basis of demand.
2. Price of commodity and time are two important elements in context of demand.
3. Demand for a commodity is a relative concept.

Question: 29

Answer the following question
What are the assumptions of the Law of Demand?

Solution

The law of demand is based on the following assumptions:

1. Size of the population remains the same.

2. Income of the consumer remains unchanged.
3. Prices of related goods remain unchanged.
4. Consumer's tastes and preferences remain unchanged.
5. Government's policies remain unchanged.
6. There is no change in the expectations about the future.

Question: 30

Do you agree with the following statement? Give reason
There are no exceptions to the law of demand.

Solution

No, the law of demand has certain exceptions. Some of such exceptions are listed below:

1. **Giffen goods**: These are extremely inferior goods. With a fall in price of the Giffen goods, their demand falls.

2. **Emergency situations**: In case of emergency situations such as war, curfew, natural calamities etc consumers purchase the commodities even at a higher price.

3. **Articles of distinction:** Articles such as diamonds, jewellery, etc. are accorded high prestige and status as these are very costly. Such articles enjoy a high demand because of their high price. Consequently, the demand for such goods share a positive relationship with price.

Question: 31

Do you agree with the following statement? Give reason
Many factors influence the demand for a commodity.

Solution

Yes, demand for a commodity is influenced by a number of factors. Some of the factors that influence the demand for a commodity are:

1. Price of the commodity- Demand for a commodity shares a negative relationship with price. As the price of the commodity increases, the demand for it falls and vice versa.

2. Income of the consumers- For normal goods, demand for a good shares a positive relationship with income of the consumer. As the income of the consumer increases, the demand for normal goods increases and vice versa

3. Price of related goods (substitute and complementary goods)- Substitute goods are the goods that are consumed in place of each other. In case of such goods as the price of one good increases, the consumer shifts its demand towards the other good. On the other hand, complementary goods are the goods that are consumed together for the satisfaction of wants. In case f such goods as the price of one good increases the demand for other

good falls and vice versa.

4. Tastes and preferences of consumers- As the consumers develop a taste and preference for a commodity the demand for it increases. On the other hand, if the taste and preference of consumers move away from a commodity, the demand for good falls.

5. Expectations about future prices- If the consumers expect the prices to rise in future, the demand for the good increases at present. On the other hand, if the consumers expect the price to fall in future, they postpone their demand for future.

6. Size of the population- Greater the size of population, greater is the total number of consumers, greater is the demand for the commodity and vice versa.

Question: 32

Do you agree with the following statement? Give reason
State and explain the law of demand.

Solution

The law of demand focuses on the basic relationship between the price of the good and quantity demanded of the good.

According to this law, other things being constant (ceteris paribus), a consumer's demand shares an inverse relationship with the price of a good and vice versa. In other words, if the income, price of related goods and taste and preferences of the consumer remain unchanged, then the demand for the good moves in the opposite direction of its price.

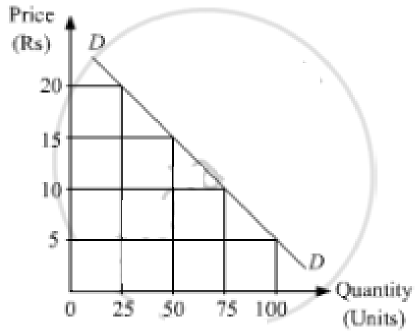
The law of demand is based on the following assumptions:

1. Size of the population remains the same.
2. Income of the consumer remains unchanged.
   Prices of related goods remain unchanged.
3. Consumer's tastes and preferences remain unchanged.
   Government's policies remain unchanged.
4. There is no change in the expectations about the future.

The law of demand can be explained with the help of the following demand schedule:

Price of Commodity (X) (Rs)	**Quantity Demanded of X (Units)**
5	100
10	75
15	50
20	25

The schedule shows that as the price of commodity X increases from Rs 10 to Rs 15, the quantity demanded for X falls from 75 units to 50 units. Thus, there is a negative relationship between demand and price.



Let us plot the above schedule on a graph. On the x-axis, we represent the quantity demanded; and on the y-axis, we represent the price of the good. Joining the different combinations of price and quantity demanded, we get a curve DD. This curve is the demand curve showing the inverse relationship between the price and the quantity demanded.

Question: 33

Do you agree with the following statement? Give reason
Explain determinants of market demand.

Solution

Market demand for a commodity depends on the following factors:

1. **Market price of the good** - Other things remaining constant, as the market price of a good rises (or falls), the quantity demanded of the good falls (or rises). Thus, the market price of a good and quantity demanded of that good share a negative relationship.

2. **Market price of other goods** – The quantity demanded of a good also depends on the market price of other goods (i.e., related goods). Any two goods are considered to be related to each other when the demand for one good change in response to the change in the market price of the other good. Related goods can be classified into the following categories:

   a. Substitute Goods - In case of substitute goods, if the price of one good increases, the consumer shifts his demand towards the other (substitute) good; that is, a rise in the price of one good results in the rise in the demand of the other good and vice versa.

   b. Complementary goods - In case of complementary goods, if the price of one good increases, the consumer reduces his demand for the complementary good as well; that is, a rise in the price of one good results in the fall in the demand for the other good and vice versa.

3. **Income of the consumer** - Change in the income of the consumer also affects the market demand for goods. The effect of change in income on

the market demand depends on the type of the good.

4. **Type of Good**: The market demand for normal goods shares a positive relationship with the consumer's income. The market demand for inferior goods (such as coarse cereals) has a negative relationship with the consumer's income. The market demand for Giffen goods also has a negative relationship with the income.

5. **Consumer's tastes and preferences** - Consumers' tastes and preferences highly influence the demand for goods. Other things being constant, if all consumers prefer a commodity over another, then the market demand for that commodity increases and vice versa.

6. **Population size** - The market demand for a commodity is also affected by the population size. Other things being equal, an increase in the population size increases the market demand for a commodity and a decrease in the population size decreases the market demand for a commodity. This is because with the change in population size, the number of consumers in the market changes; thus, the market demand also changes.

7. **Distribution of income** - If the distribution of income in the society is fair and equal, then the demand for a commodity is more compared to a situation where there is unequal distribution of income.