

## **Quadrant II – Transcript and Related Materials**

**Programme: Bachelor of Arts (First year)**

**Subject: Economics**

**Paper Code: ECC101**

**Paper Title: Microeconomics-I**

**Unit: 1**

**Module Name: Determinants of demand**

**Module No: 9**

**Name of the Presenter: Ms. Gouri K. Manerkar**

---

### **Notes**

**In this module we have explained the determinants of demand.**

#### **DETERMINANTS OF DEMAND**

**Determinants of demand are as follows:**

##### **1) Price of a Product or Service**

**Price of the product affects the demand of a product to a large extent. There is an inverse relationship between the price of a product and quantity demanded. The demand for a product decreases with increase in its price, while other factors are constant, and vice versa. For example, consumers prefer to purchase a product in a large quantity when the price of the product is less.**

##### **2) Income**

**Income constitutes one of the important determinants of demand. The income of a consumer affects his/her purchasing power, which, in turn,**

influences the demand for a product. Increase in the income of a consumer would automatically increase the demand for products by him/her, while other factors are at constant, and vice versa.

### **3) Essential or Basic Consumer Goods**

Essential or Basic Goods refer to goods that are consumed by all the people in the society. For example, food grains, soaps, oil, cooking fuel, and clothes. The quantity demanded for basic consumer goods increases with increase in the income of a consumer, but up to a fixed limit, while other factors are constant.

### **4) Normal Goods**

Normal goods refer to goods whose demand increases with increase in the consumer's income. For example, goods, such as clothing, vehicles, and food items, are demanded in relatively increasing quantity with increase in consumer's income. The demand for normal goods varies due to different rate of increase in consumers' income.

### **5) Inferior Goods**

Inferior goods refer to goods whose demand decreases with increase in the income of consumers. For example, a consumer would prefer to purchase wheat and rice instead of millet and cooking gas instead of kerosene, with increase in his/her income. In such a case, millet and kerosene are inferior goods for the consumer.

### **6) Luxury Goods**

Luxury Goods refer to goods whose demand increases with increase in consumer's income. Luxury goods are used for the pleasure and esteem of

consumers. For example, expensive jewellery items, luxury cars, antique paintings and wines, and air travelling.

#### **7) Tastes and Preferences of Consumers**

It plays a major role in influencing the individual and market demand of a product. The tastes and preferences of consumers are affected due to various factors, such as life styles, customs, common habits, and change in fashion, standard of living, religious values, age, and gender. A change in any of these factors leads to change in the tastes and preferences of consumers. Consequently, consumers reduce the consumption of old products and add new products for their consumption. For example, if there is change in fashion, consumers would prefer new and advanced products over old-fashioned products, provided differences in prices are proportionate to their income. Apart from this, demand is also influenced by the habits of consumers. For instance, most of the South Indians are non-vegetarian; therefore, the demand for non-vegetarian products is higher in Southern India.

#### **8) Gender Ratio**

Gender ratio has a relative impact on the demand for many products. For instance, if females are large in number as compared to males in a particular area, then the demand for feminine products, such as make-up kits and cosmetics, would be high in that area.

#### **9) Price of Related Goods**

Price of related goods refers to the fact that the demand for a specific product is influenced by the price of related goods to a greater extent. Like substitute and complementary goods

## **10) Substitutes**

**Substitutes refer to goods that satisfy the same need of consumers but at a different price. For example, tea and coffee, jowar and bajra, and groundnut oil and sunflower oil are substitute to each other. The increase in the price of a good results in increase in the demand of its substitute with low price. Therefore, consumers usually prefer to purchase a substitute, if the price of a particular good gets increased.**

## **11) Effect of Advertisements**

**Refers to one of the important factors of determining the demand for a product. Effective advertisements are helpful in many ways, such as catching the attention of consumers informing them about the availability of a product, demonstrating the features of the product to potential consumers, and persuading them to purchase the product. Consumers are highly sensitive about advertisements as sometimes they get attached to advertisements endorsed by their favourite celebrities. This results in the increase demand for a product.**

## **12) Distribution of Income in the Society**

**Influences the demand for a product in the market to a large extent. If income is equally distributed among people in the society, the demand for products would be higher than in case of unequal distribution of income. However, the distribution of income in the society varies widely. This leads to the high or low consumption of a product by different segments of the society. For example, the high income segment of the society would prefer luxury goods, while the low income segment would prefer necessary goods. In such a scenario, demand for luxury goods would increase in the high**

income segment, whereas demand for necessity goods would increase in the low income segment.

### **13) Growth of Population**

It acts as a crucial factor that affect the market demand of a product. If the number of consumers increases in the market, the consumption capacity of consumers would also increase. Therefore, high growth of population would result in the increase in the demand for different products

### **14) Government Policy**

Government Policy refers to one of the major factors that affect the demand for a product. For example, if a product has high tax rate, this would increase the price of the product. This would result in the decrease in demand for a product. Similarly, the credit policies of a country also induce the demand for a product. For example, if sufficient amount of credit is available to consumers, this would increase the demand for products.

### **15) Climatic Conditions**

Climatic Conditions affect the demand of a product to a greater extent. For example, the demand of ice-creams and cold drinks increases in summer, while tea and coffee are preferred in winter. Some products have a stronger demand in hilly areas than in plains. Therefore, individuals demand different products in different climatic conditions.