

DEMAND ANALYSIS

$$Q_{dx} = f(P_x, Y, P_{abc}, T_H, W, E\dots)$$

A household's decision about what quantity of a particular output, or product, to demand depends on a number of factors including:

- The *price of the product* in question
- The *income available* to the household
- The household's *amount of accumulated wealth*
- The *prices of other products* available to the household
- The household's *tastes and preferences*
- The household's *expectations* about future income, wealth, and prices

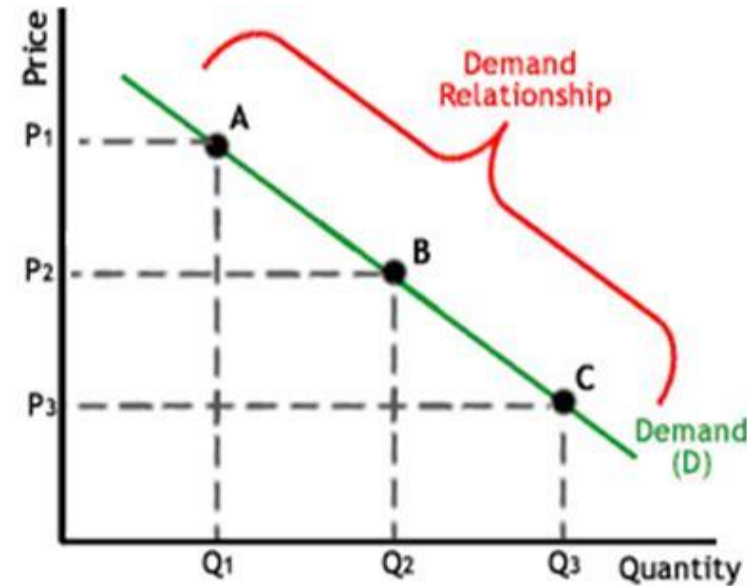
quantity demanded The amount (number of units) of a product that a household would buy in a given period if it could buy all it wanted at the current market price.

LAW OF DEMAND

Change in Quantity Demanded

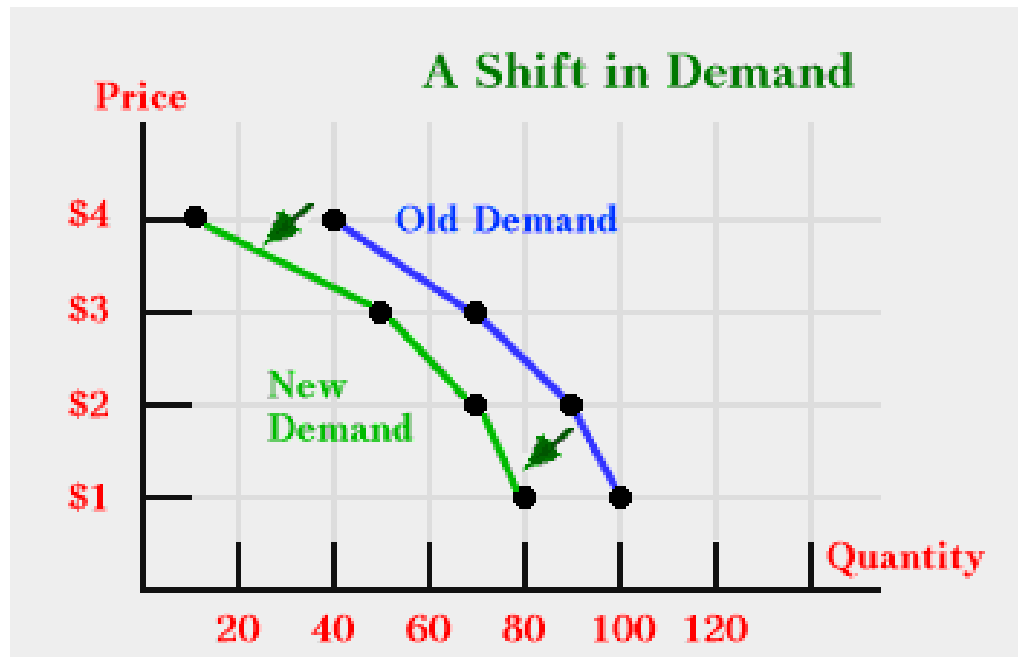
- Law of demand stated by Alfred Marshall, which says a rise in price leads to contraction in demand and fall in price leads to extension in demand

Movement along the demand



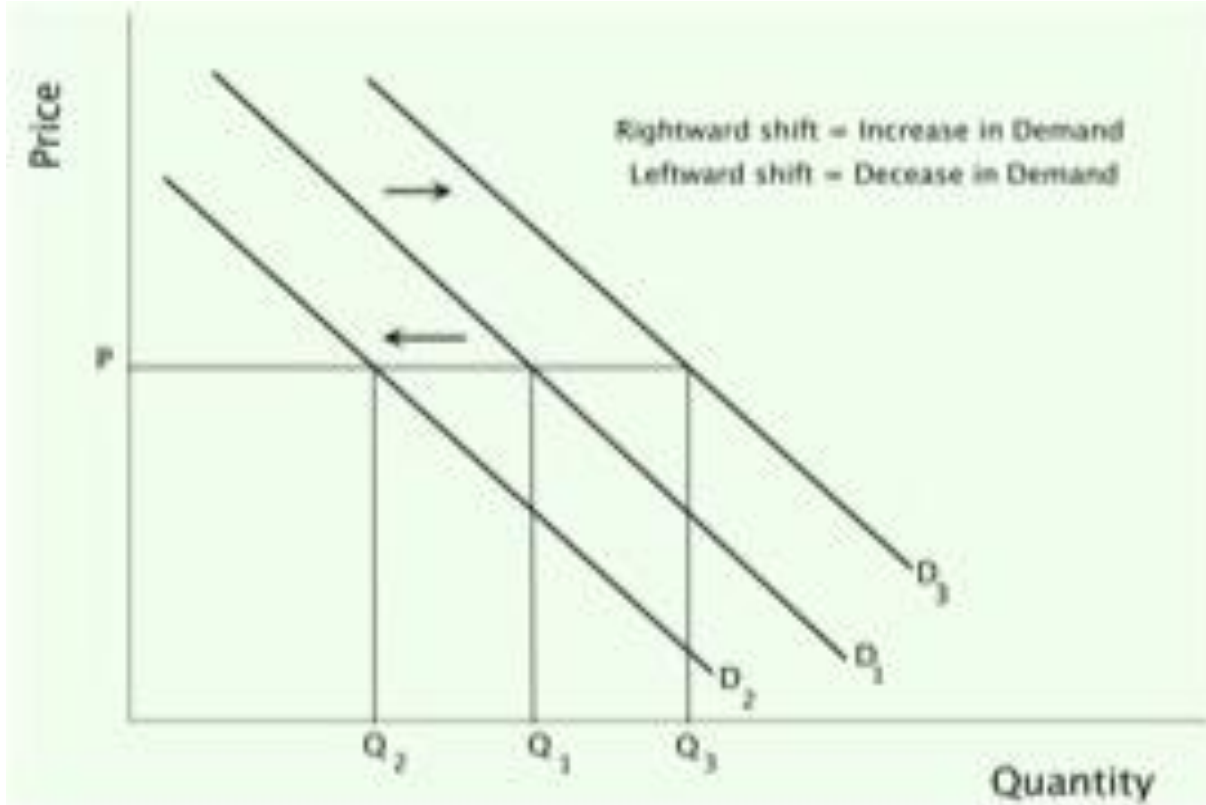
Change in Demand

Shift in the demand curve



Rightward shift – Increase in demand

Leftward shift- Decrease in demand



ELASTICITY OF DEMAND

Definition of Elasticity of Demand

Types of Elasticity of demand

Kinds of Elasticity of demand

Consumer choice

utility The satisfaction, or reward, a product yields relative to its alternatives. The basis of choice.

In other words

The want satisfying power of a commodity is called utility

Law of Diminishing Marginal Utility

law of diminishing marginal utility The more of any one good consumed in a given period, the less satisfaction (utility) generated by consuming each additional (marginal) unit of the same good.

- **marginal utility (*MU*)** The additional satisfaction gained by the consumption or use of one more unit of something
- **total utility** The total amount of satisfaction obtained from consumption of a good or service.

Total Utility and Marginal Utility of Trips to the Club Per Week

Trips to the Club Per Week	Marginal Utility	Total Utility
1	12	12
2	10	22
3	6	28
4	4	32
5	2	34
6	0	34

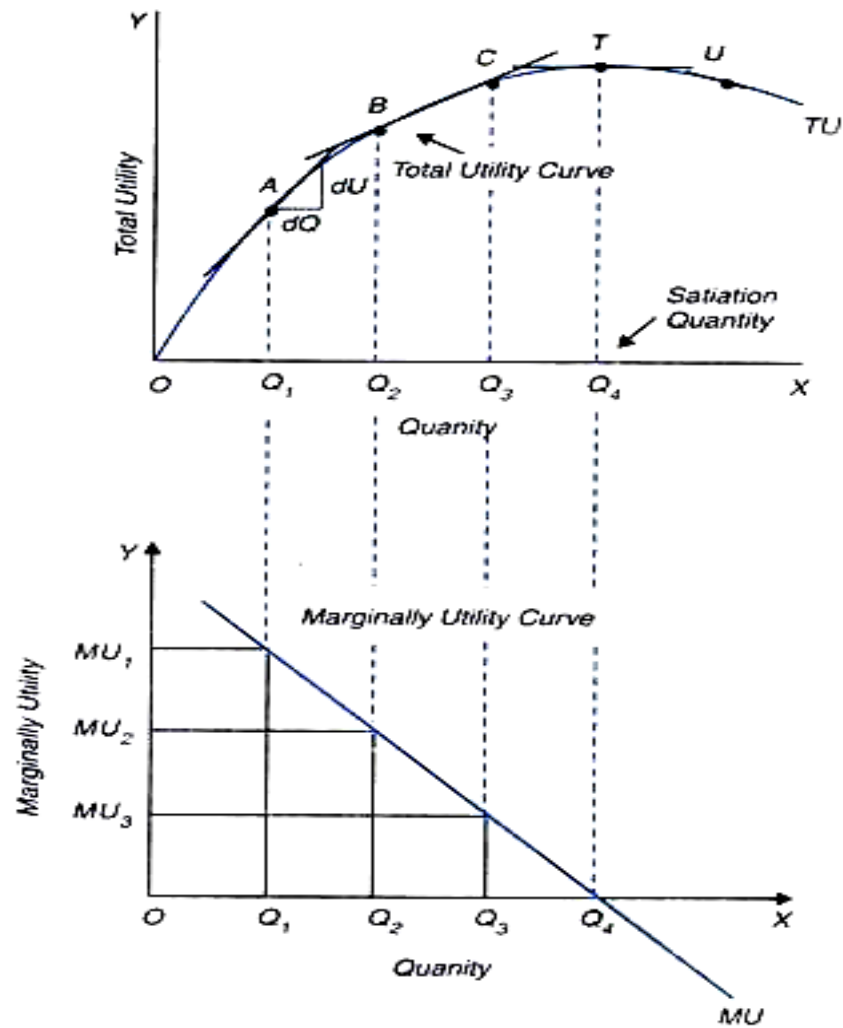


Fig. 7.1. . Total Utility and Marginal Utility

Ordinal Approach: Indifference Curves

It is set a of combination of good A and good B which give same satisfaction to the consumer.



Properties of Indifference Curves (ICs)

They are downward sloping and convex to the origin curves,

No two IC curves must intersect,

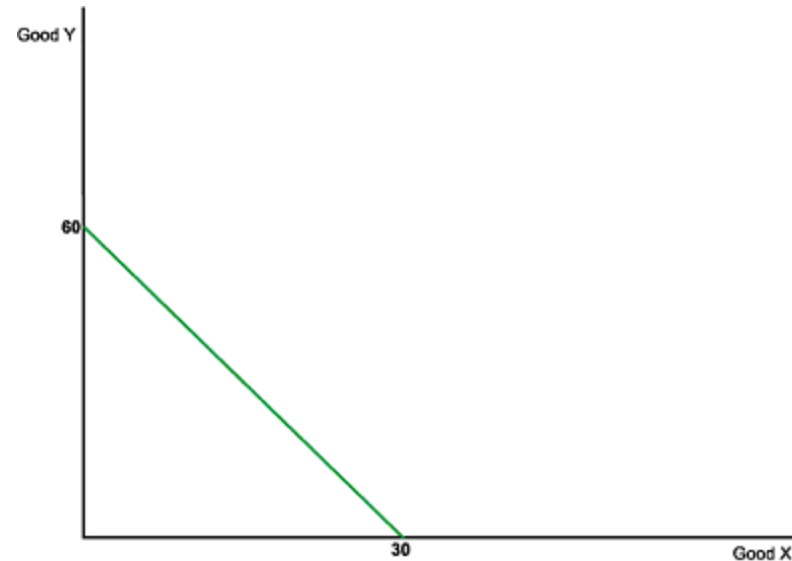
Higher the IC curve higher will be the level of satisfaction.

The slope of the IC is called Marginal Rate of Substitution(MRS)

Budget Line

The budget line illustrates all the possible combinations of two goods that can be purchased at given prices and for a given consumer budget.

$$\text{Money Income} = P_1X + P_2Y$$



Consumer Equilibrium

A rational, maximising consumer would prefer to be on the highest possible indifference curve given their budget constraint. This point occurs where the indifference curve touches (is tangential to) the budget line.

