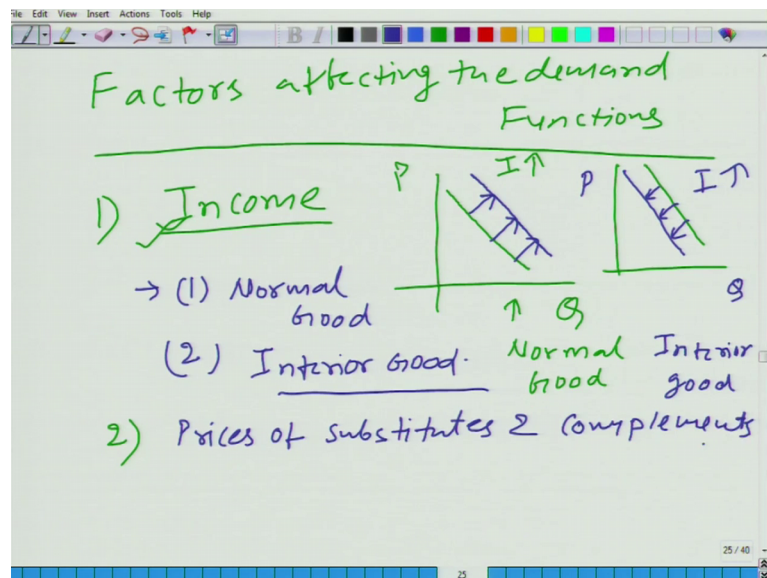


An Introduction to Microeconomics
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Lecture – 11
Factors Affecting Demand

Factors affecting the demand function.

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Can you think of any factor that affect the demand function? Some we have already covered, some we have covered in the today's class the first session we have covered can you think of some of the factors?

Student: Income income.

Income how does it impact, what happens?

Student: Income increases demand increases.

Income increases demand increases. So, what you are saying that we have here price on y axis Q on x axis let us say this is the demand curve, downward sloping function, and then if income goes up, this is what we get is it true? It is true in most of the cases, but not always, let me say there are two kind of goods; normal goods or normal good let us write and.

Student: Inferior.

Inferior good; when quantity demanded rises with an increase in income, then we call that good as normal good fine. Remember what we are saying, when we were talking about demand function we said that everything else is held.

Student: Constant.

Constant and we talked about change in the price of that particular item, but hear me what I am saying now I am saying the price of an item is fixed and income is changing. So, of course, if income is changing what would happen?

Student: Shift.

We would not have movement along the curve, but we will get shift in the curve. And there are two types of shift possible, one that quantity demanded at the same price would go up or go down or would remain fixed you can say that is another time, but let us consider these two either it goes up or it goes down.

So, when quantity demanded goes up at the same price with an increase in income, then we call that good as normal good. When quantity demanded at the same price decreases as your income goes up, then that good is called inferior good for yourself can you give me any example of normal good and inferior good? When let me say again it depends on your income level and again it depends on parameters. So, I am just creating a case that may not be always true, but this particular case it illustrate the inferior good in the market.

Let us say you are a very poor person, probably you spend a significant proportion of your income on potato you buy potato. As your income goes up you become capable of buying some meat. So, as your income would go up your consumption of potato would decrease. So, in this case potato is clearly an inferior.

Student: Inferior.

Good, but that is a possibility that your income goes up and you like potato so much, that your consumption for potato goes up. In this case if this is the case then potato would not be a inferior goods for yourself fine its clear; and normal good is simple that you know

more income you have more meat you will buy. So, income definitely affects your demand. So, one factor is income how about the second factor? So, income we discussed today even before we started discussing about factors affecting the demand function. So, think about it we discussed some other factors also, in course of discussing demand function.

Student: Alternative.

This is for let us say here income goes up, then this is the case of normal good.

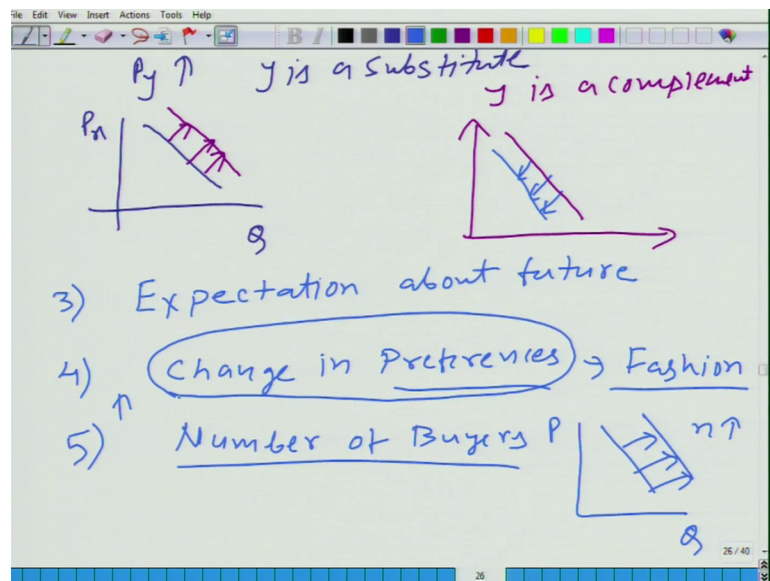
Student: Availability (Refer Time: 05:09).

Fine the second one is availability of.

Student: Alternatives.

Prices of substitutes and compliment. So, let us say the price of a substitute goes up.

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What will happen to the demand for good x?

Student: Increase.

hm.

Student: Increase increase.

So, it will increase and if y is complement.

Student: Decrease.

It will decrease it is clear? Just to understand what we are talking about that when price let us say we earlier we learned the tea and coffee are.

Student: Substitutes.

Substitutes. So, price of coffee goes up now remember we are not talking about individual demand we are talking about market demand. So, price of coffee goes up more and more people would opt for tea, at the same price. So, at the same price quantity demanded for tea would go up. So, price the increase in price of coffee would shift the demand curve for tea right ward fine. So, substitute how about for complement that you can generate on your own, that is part of the home work that what happens when the prices of a compliment goes up any other factor? So, what we had discussed income prices of substitute and complement, any other thing?

Diminishing value we already right now we remember we are talking about effects on demand function or demand curve value, you know when we talk about change in price of that good we get movement along the curve. Right now we are not talking movement along the curve we are talking about change in demand function; it means we are talking about shift in demand function the factors which would cause demand function to shift and we have figured out income as well as complement and substitute prices. What else think about, let us say we are talking about demand for today, let us say we are talking about quantity demanded of petrol today in the market. If we expect that government of India is going to increase petrol prices by tomorrow what do you think, what would happen to the demand function today?

Student: Increase.

It would increase. So, your expectation about future also impacts your demand function fine. Expectation is also quite important, what else? (Refer Time: 09:14) rather not just preferences change in preferences. Although in later chapters I would say that preferences would not change, but right now that is again an assumption I told you right in the beginning we make lot of assumptions in order to learn something about complex

world. So, later on we will assume that preferences do not change over the period, but we all know that I may like something today and tomorrow I may not like, and typically it happens in context of fashion goods. If something is in fashion today the demand is quite high, it goes out of the fashion demand decreases.

So, change in preferences and last or you can also think of more, but the last one that I am going to discuss this number of buyers. One thing you should notice that all other factors above I described number of buyers they impact not only market demand, but also impact individual demand, but here now we are talking about number of buyers it does not impact individual demand it impacts market demand. So if we have more and more people in the market buying the same good what would happen to the demand curve.

As number increases demand would.

Student: Demand would increase.

Increase. So, it would shift it would shift again right ward let us say n is the number, as n increases is it clear. So, that brings you know closer to the concept of at least we had described the concept required to understand demand schedule in adequate detail, now let us move to supply any question you have about demand?

Student: (Refer Time: 11:38) one question.

[FL].

Student: (Refer Time: 11:39) about (Refer Time: 11:40) technology like (Refer Time: 11:41) technology improves like (Refer Time: 11:42) that will change in production function. So, (Refer Time: 11:43) would that that would also effect the demand function.

We will see let me let me understand your question clearly what you are saying that if for some reason technology improves in one particular sector would it impact our demand? It sometime it does impact our demand, but through a particular channel that we have already described probably it changes our preferences, for one example earlier you did not had LCD TV, you had CRT TV, Big TVs. Your demand for LED TV in other word was equal to equivalent to 0, that is because of the introduction of LCDs you learnt about

it and your now you incorporated it in your tastes in your preference and of course, now there is a huge demand for LCD TV.

So, what is basically happening it impact your demand, but that we already took care of it here change in preferences sometime technology brings change in preferences. But if you just say because of change in technology demand does not change.

Student: Supply.

We will learned later on even just now that change in technology brings change in supply, not change in demand. If it brings change is demand through change in preferences, your taste changes over time because you see new technology in the market. But demand is changing not because of change in technology, but change in your preferences that is the way we will take it.

Student: sir change in technology does it mean that we were producing the same good by a efficient technology or like you told LCD tv and big tv. So, sir if change in technology then we will consider that big tv is only produced with different technologies.

You see again we are using this term technology vaguely, typically you know what you are saying typically when you are saying technology here, what we mean is that the same thing can be produced by better technology, and in that case that it does not affect demand at all.

Student: Yes sir.

It does not affect demand at all.

Student: Yes sir.

So that is what I said. So, if you just say technology it does not affect the demand, but if it changes your preferences somehow then it may or may not affect your demand function.