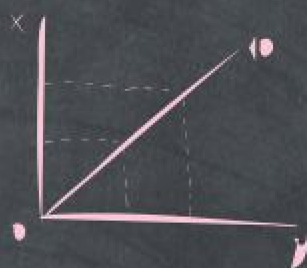
SMART NOTES

Handwritten Notes For You

S.Y.J.C.

Economics



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ECONOMICS

S.Y.J.C. (Commerce & Arts)

MAHARASHTRA STATE BOARD

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PREFACE

Economics 'Smart Notes' is a first-of-its-kind handwritten book curated to facilitate learning & instil conceptual understanding within students. This treasure trove of knowledge fosters robust conceptual clarity and inspires confidence within the nimble mind of young learners.

Std. XII is a crucial year of a student's academic life. 'Smart Notes' not only help you prepare for your final examination but also equip you on a parallel ground to strengthen your foundation and lay the cornerstone of a bright future. Smart Notes comprehensively cover the entire syllabus and answer all possible questions that can be asked in your board exams. The book contains multiple other features like Smart Codes, Smart Recaps, Chapter-wise Index, Smart Videos etc. that make studying fun, interesting and interactive.

Apart from the book, we're also delighted to present you 'Quill-The Padhai App'. Quill App takes an innovative approach towards learning and facilitates the user to read & listen to the entire content of this book. Hence, it enables you to learn on the move. It also has a unique quiz section that tests your subject knowledge. Moreover, you can also view Board Question Papers of the previous years.
With the purchase of this book you are entitled to avail a month's Free access to the Quill App.

We're sure that students, parents and teachers alike would love our value proposition and unique presentation of content that we have created for students.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.
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ECONOMICS
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WHY TO STUDY ECONOMICS ?

Apart from the basic objective of passing this board exam, there are various reasons for studying Economics:

- Economics is something that you experience on a daily basis. Studying this subject will solve a lot of your unsolved questions. Also, it will make you more aware about the world you live in.
- It helps you understand human economic behaviour in a better manner. Why a person reacts in a certain manner in a particular economic situation, is clearly explained in various economic laws.
- It explains simple things like why you save, why is a product priced at Rs.x, why is rent higher at certain places compared to another, why is the price of two substitute products similar, why do interest rates keep changing, why do we need banks, what causes recession, what causes inflation, etc.
- We always criticize the government for its various policies but the government also has certain objectives and certain limitations. Economics helps you to understand and analyze from the other side.

Economics is going to be with you all through your academic life. Hereafter, any course related to commerce that you select will include Economics as a subject.

TOTAL MARKS = 100 → PROJECT = 20 MARKS
→ THEORY = 80 MARKS

PAPER PATTERN

TIME = 3 HOURS (180 Minutes)

Q. NO.	PARTICULARS	NO. OF QUESTION	MARKS PER QUESTION	TOTAL MARKS	OPTION	IDEAL TIME REQ.
1A.	Fill in the blanks with appropriate alternatives given in the brackets	5	1	5	Nil	5
1B.	State whether the following statements are TRUE or FALSE	5	1	5	Nil	5
1C	Match the Columns	6	1	6	Nil	5
2A.	Define the following	3	2	6	3 out of 6	15
2B.	Give Reasons	3	2	6	3 out of 6	15
3A.	Distinguish Between	3	2	6	3 out of 6	15
3B.	Short Notes	2	3	6	2 out of 4	15
4.	Answer the following	3	4	12	3 out of 6	30
5.	State with reasons whether you "Agree" or "Disagree" with the following statements	3	4	12	3 out of 6	30
6.	Answer in detail	2	8	16	2 out of 4	35
	TOTAL	35	-	80		170

(Balance 10 mins. for Review)

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7	Introduction to Macro-Economics	7.1 - 7.9	4 - 8
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NOTES :

1. We have given "Smart codes" for certain answers to aid you in remembering them. Use them only when you need them. Remembering Smart codes for every answer is not advisable.
2. At the beginning of every chapter is a list of questions against which we have mentioned the board paper in which they were asked. These questions may be asked directly or indirectly as distinguish between, give reasons, short notes, etc. This list is only indicative and not exhaustive.
3. The content given in boxes in the book is only for understanding and better clarity. Students are not expected to write it in any of their exams.

Scan this QR code to watch the video on
"Law of Demand"
(Q.5. – page no. 3A.8)

CHAPTER 3A : DEMAND ANALYSIS

QUESTION NO.	PARTICULARS	PAGE NO.	EXAMS (in which the entire question or a part of it appeared)
1.	Explain 'Individual Demand' and 'Market Demand'	3A.1	MAR'13
2.	What are the factors affecting demand? OR What are the determinants of demand?	3A.4	SEP'08, MAR'14 MAR'15, Oct'15
3.	What are the types of demand?	3A.7	MAR'11,'18
4.	Explain the Law of Demand with assumptions.	3A.8	MAR'09,'12,'13 SEP'10, MAR'14,'15 '16, OCT'14, Oct'15, Mar'17,'18, JUL '18
5.	What are the exceptions to the Law of Demand?	3A.11	MAR'08,'09,'12,'16 SEP'09, MAR'14 OCT'14, Jul '17, '18
6.	Why does the demand curve slope downward from left to right? OR The demand curve slopes downwards from left to right. Give Reasons.	3A.13	MAR'08,'11,'12, SEP'10.
7.	Explain 'variation' in demand.	3A.15	
8.	Explain 'change' in demand.	3A.17	

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CHAPTER 3(A) : DEMAND ANALYSIS

INTRODUCTION

The willingness to have something can be called as desire. Human Beings have unlimited desires. We are always striving for better things in life. We want a high-end phone, best education, international holidays, dinner at five star hotels, swanky cars and bikes, good house, etc. However, this is merely desire. In order to acquire all of this, we need to have the ability to pay and even when we have the ability to pay, we need to have the willingness to spend. A desire or wish can become demand only when the person desiring the product has the ability to pay for the product and also willingness to pay.

DEFINITION AND MEANING

Demand is defined as a desire backed by ability to pay and willingness to spend.

DEMAND = DESIRE + ABILITY TO PAY + WILLINGNESS TO SPEND

Demand is that quantity that a person is ready to buy at a particular price during a specific period of time.
A person's desire, ability and willingness keep changing as price of the product changes and also with change in time. Therefore, reference of price and time is necessary for demand.
Eg: The demand of mangoes by Mr. Prasad's family is 5 dozens per week at Rs. 150 per dozen.

Q1 Explain 'Individual Demand' and 'Market Demand'.

ANS Demand is the desire backed by ability to pay and willingness to spend. It is the quantity that a person is ready to buy at a particular price during a specific period of time.

(A) INDIVIDUAL DEMAND (MAR'12)

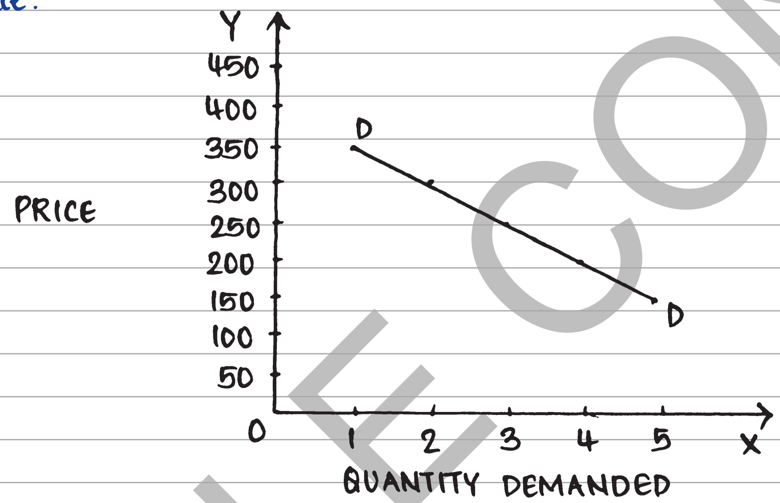
Individual demand is the amount of goods demanded by an individual (single) buyer at different prices during a given period of time.
Individual Demand Schedule is the tabular representation of goods demanded by an individual buyer at different prices during a given period of time.

PRICE OF MANGOES (RS. / PER DOZEN)	DEMAND PER WEEK (QUANTITY IN DOZZEN)
150	5
200	4
250	3
300	2
350	1

This is an individual demand Schedule.

From the above schedule, it can be observed that as the price of mangoes rises, the demand falls. On the other hand, as the price of the mangoes fall, the demand rises. It clearly shows that there is an inverse relation between price and demand.

Individual Demand Curve is the graphical representation of the individual demand schedule.



In the above diagram, downward sloping curve DD is individual demand curve. The Y-axis represents price and X-axis represents corresponding quantity demanded. (individual demand). The demand curve DD is downward sloping from left to right which represents inverse relation between price and demand.

(B) MARKET DEMAND

Market demand is the aggregate amount of goods demanded by all individuals buyers at different prices during a given period of time. It is the sum total of all individual demand. Therefore, market demand is always greater than individual demand.

Market Demand Schedule is the tabular representation of aggregate amount of goods demanded by all individual buyers at different prices during a given period of time.

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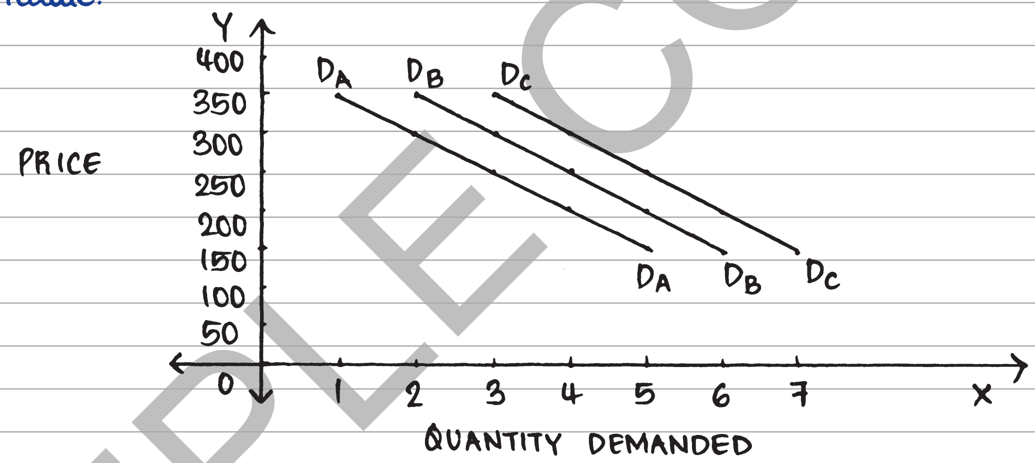
PRICE OF MANGOES	DEMAND (QUANTITY IN DOZEN)			MARKET DEMAND (A+B+C)
	INDIVIDUAL 'A'	INDIVIDUAL 'B'	INDIVIDUAL 'C'	
150	5	6	7	18
200	4	5	6	15
250	3	4	5	12
300	2	3	4	9
350	1	2	3	6

This is a Market Demand Schedule.

We have assumed that there are three buyers in the market and hence, market demand is sum total (aggregate) of the demand of each buyer. From the above schedule, it can be observed that as the price of mangoes rises, the market demand falls. On the other hand, as the price of mangoes falls, the market demand rises. It clearly shows that there is an inverse relation between price and demand.

Market Demand Curve is the graphical representation of the market demand schedule.



In the above diagram, downward sloping curves D_AD_A, D_BD_B, D_CD_C are individual demand curves of individuals A, B and C respectively. In totality, they represent the market demand. The Y-axis represents price and the X-axis represents corresponding quantity demanded (market demand). The demand curves are downward sloping from left to right which represent inverse relation between price and demand.

Q2 What are the factors affecting demand? (SEP'08) (Oct'15) OR
What are the determinants of demand? (MAR'14,'15) OR
Price is not the only factor which affects demand. Give Reasons.

ANS Demand is the desire backed by ability to pay and willingness to spend. It is the quantity that a person is ready to buy at a particular price during a specific

period of time. The demand for a commodity depends on or is affected by the following factors:
(SMART CODE : 3 - PRICE FACTOR DIE)

(1) PRICE OF THE COMMODITY

Out of all the factors which affect demand, price is the most important factor. Price is the most influential factor which affects demand. Generally, it is observed that when the price of a commodity rises, the demand for the commodity falls and when the price falls, the demand for the commodity rises. In simple words, higher the price, lower the demand and lower the price, higher the demand.

(2) PRICE OF SUBSTITUTES

The demand for a commodity may change if there is a change in the price of its substitute. If the price of its substitute falls, there will be more demand of the substitute by the consumers and the demand for the commodity will fall. Similarly, if the price of the substitute rises, the consumers will demand more of the commodity and the demand for the substitute will fall.
Eg: If the price of Colgate toothpaste increases then the demand for colgate will fall and the demand for Pepsodent/ Close-up/ Babool (ie. substitute) will increase.

(3) PRICE OF COMPLEMENTARY GOODS

Complementary goods refer to goods which are always used together or jointly.
Eg: Car and petrol, TV and set top box (Tata Sky), tea and sugar.
If the price of one of the goods increases, then the demand for the other will fall and vice versa.
Eg: If the price of sugar increases then demand for tea will fall (because sugar is used in making tea)

(4) FASHION, TASTES AND HABITS

Fashion and trends change quickly. Products which are not in fashion or out of trend have less demand. Goods which are in fashion have higher demand.
Eg: Ripped (cut) jeans are more in demand as compared to regular jeans.
The tastes and habits of customers also affect the demand for products. The tastes of consumers keep changing while habits tend to remain constant.
Eg: Demand for pizza, burger, vada pav, chocolates, etc. depend on a person's taste. Demand for cigarettes, alcoholic beverages, paan, gutka, etc is a matter of habit.

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(5) AGE STRUCTURE AND SEX RATIO

The demand for goods useful to a particular age group will be high if major buyers in the market belong to that age group.

Eg: A country having large size of population in the age group of 2-10 years will demand more of childern goods like toys, diapers, school bags, books, etc.

Similarly, demand for goods also depends on the sex ratio in the country.

Eg: In India, the male population is higher as compared to the female population. Therefore, demand for products used by males like shaving cream, male clothes, men's perfumes etc. will be more.

(6) CLIMATE

The demand for certain commodities also depends on climatic conditions. If there is a change in climate, then there will be more demand for products pertaining to that climate.

Eg: - Air conditioners, nimbu pani, cotton clothes will have higher demand in summer

- Umbrellas, water purifiers, mobile covers, etc. will have higher demand in rainy season.
- Sweaters, shawls, hot beverages, etc. have higher demand in winter.

(7) TAXATION POLICY

If the government charges higher tax, then people have to pay more tax and they are left with little disposable income. As a result, their demand in general, will reduce. On the other hand, if the tax rate is low, then people have to pay less tax and they are left with more disposable income. As a result, their demand in general, will increase.

(8) OVERALL POPULATION

If the size of the population is large, there will be high demand for various goods. A country with a low population will have a relatively low demand for various goods.

Eg: The demand in China in general will be higher as compared to Australia.

(9) REGULAR ADVERTISEMENT

Consumers get influenced by regular advertisements on television, in newspapers, on radio, etc. There is a higher demand for goods which are advertised strongly on various media.

Eg: People do get influenced when their favourite superstar or sportstar endorses a soap brand or watch brand. As a result, they demand more of such commodities.

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(10) DISTRIBUTION OF INCOME

The distribution of income and wealth in the economy is also an important determinant of demand. An unequal distribution of income in the economy will lead to less demand for goods and services.

(11) INCOME

When the income of a person increases, he is able and willing to spend more. As a result, he will demand more goods and services. Similarly, a fall in income, will lead to fall in demand.

(12) EXPECTATION REGARDING FUTURE PRICES

People generally speculate regarding price of goods in the future. This speculation affects their current demand. If people feel that the price of a commodity will fall in the future, they will postpone their demand to the future and demand less at present.

Eg: People expect the prices of "Apple iPhone 6" to fall in the future. As a result, they will demand more in the future and demand less now.

Q3 What are the types of demand? (MAR'18)

ANS Demand is a desire backed by ability to pay and willingness to spend. The following are the types of demand:

(SMART CODE : I M Joint Commissioner of CID)

(1) INDIVIDUAL DEMAND

Individual demand is the amount of goods demanded by an individual (single) buyer at different prices during a given period of time.

(2) MARKET DEMAND

Market demand is the aggregate amount of goods demanded by all individual buyers at different prices during a given period of time. It is the sum total of all individual demand. Market demand is more important to seller as all decisions taken by him are based on it.

(3) JOINT DEMAND OR COMPLEMENTARY DEMAND

When two or more goods are demanded jointly to satisfy one single want, it is known as joint demand or complementary demand.

Eg: To satisfy the need to make tea, we need water, tea powder, sugar and milk. Thus, we can say that there is joint demand or complementary demand for these goods. Other Egs: Car and petrol, pen and refill, mobile and charger, etc.

(4) COMPOSITE DEMAND

Composite demand refers to the demand for a commodity which can be used for satisfying two or more wants alternatively. In other words, when a commodity is in a position to satisfy multiple alternative wants of a consumer, it is said to have composite demand.

Eg: Electricity can be used to satisfy the want of watching TV, using the washing machine, charging your mobile, etc.

(5) COMPETITIVE DEMAND

When two or more commodities can be used alternatively to satisfy the same want, then such goods are said to be substitutes to each other. The demand for such substitute goods is called as competitive demand.

Eg: Surf Excel and Tide can be said to be substitutes. If the price of Tide increases, the demand for Surf Excel will rise and the demand for Tide will fall.

Other examples: Red Label Tea and Society Tea, Lexi pens and Linc pens, Pepsi and Coke, etc.

(6) INDIRECT DEMAND OR DERIVED DEMAND

Goods that are needed by the producers or manufacturers in order to produce finished goods for consumers are said to have derived demand. In short, goods that satisfy a want indirectly are said to have indirect or derived demand.

Eg: Demand for land, labour, capital, etc. are the examples of derived demand. All factors of productions have derived demand.

(7) DIRECT DEMAND (MAR'11)

The demand for a commodity which satisfies want of the consumer directly is called as direct demand.

Eg: Demand for food, clothes and house are examples of direct demand. All finished goods or consumption goods have direct demand.

Q4 Explain the Law of Demand with assumptions (MAR'09,'13,'14,'15,'16, OCT'14, Oct'15, SEP'10, Mar'18, Jul'18)

ANS INTRODUCTION

The law of Demand explains the consumer behaviour with reference to change in price. It explains the inverse relationship between price and demand. It was propounded by Dr. Alfred Marshall in his book, 'Principles of Economics'. The Law of Demand is also known as "First Law of Purchase"

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STATEMENT OF THE LAW

Dr. Alfred Marshall has explained the law of demand as follows, "Other things being constant, higher the price of the commodity, smaller is the quantity demanded and lower the price of the commodity, larger is the quantity demanded."

PRICE	DEMAND
↑	↓
↓	↑

- The law of demand explains change in the behaviour of the consumer's demand due to various changes in price. It describes the functional relation between demand and price.
- The relation between demand and price can be expressed as $D = f(p)$ ie. demand is a function of price.
- There is an inverse relationship between demand and price. because higher the price, lower the demand and lower the price, higher the demand.

DEMAND SCHEDULE

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

PRICE OF MANGOES (RS. PER DOZEN)	DEMAND PER WEEK (QUANTITY IN DOZEN)
350	1
300	2
250	3
200	4
150	5

- From the above schedule, it can be observed that when the price of mangoes is Rs 350 per dozen, the demand is 1 Dozen.
- When the price falls to Rs 300 per dozen, the demand rises to 2 dozens. Similarly, when price falls to Rs. 250 per dozen, the demand further rises to 3 dozens and so on.
- As the price of mangoes falls, the demand rises. On the other hand, as the price of mangoes rises, the demand falls.
- This shows that there is an inverse relation between price and demand.

DEMAND CURVE

The law can be further explained with the help of the following diagram:

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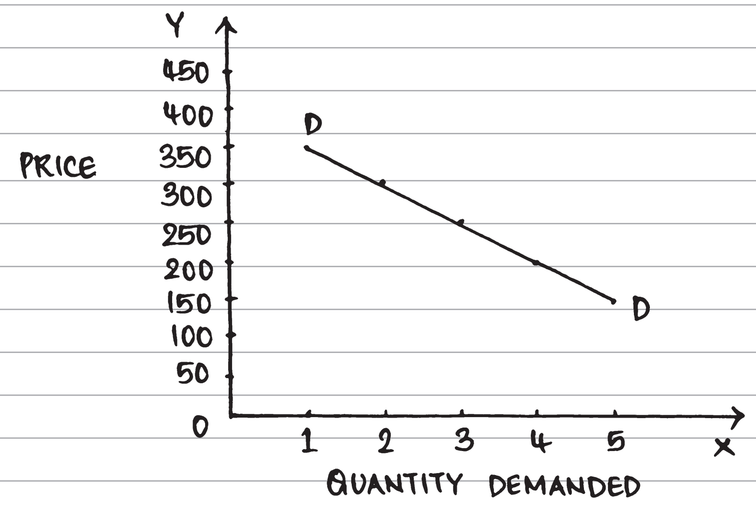

In the above diagram, downward sloping curve DD is the demand curve. The Y-axis represents price and the X-axis represents corresponding quantity demanded (market demand). The demand curve DD is downward sloping from left to right which represents inverse relation between price and demand.

ASSUMPTIONS (MAR'12)

Marshall begins the law of demand with the words 'other things being equal.' These 'other things' refer to the various factors other than price which affect demand. The law of demand only establishes the relationship between price and demand. If there is a change in other factors, the demand will change even without a change in price. In such cases, the law of demand will not hold good. Hence, Marshall assumes that other factors are equal or they do not change.

The following are the assumptions on which the law of demand is based:

(SMART CODE : No change in "PRICE FACTOR DIE)

(1) NO CHANGE IN PRICE OF RELATED GOODS

The law of demand assumes that there is no change in price of related goods like complementary goods and substitute goods.

If the price of a substitute increases, the demand for the substitute will fall and the demand for the said commodity will rise without a change in price of that commodity.

Eg: If price of "Mazaa" (substitute of "Slice") increases, the demand for "Mazaa" will fall but the demand for "Slice" will rise.

Similarly, in case of complementary goods, if the price of one of the two commodities increases, the demand for the other commodity will fall even when the price of such commodity has not increased.

Eg: The demand for cars will fall if the price of petrol increases.

(2) NO CHANGE IN FASHION, TASTES AND HABITS

The law of demand assumes that fashion in the market and tastes and habits of consumers will not change. Any change in fashion, tastes and habits can cause a change in demand without any change in price.

(3) NO CHANGE IN AGE STRUCTURE AND SEX RATIO

The age structure and sex ratio in a country determines the kind of goods that are demanded in the country. Any change in the age structure and sex ratio can lead to a change in demand for the goods without a change in price. Thus, the law assumes that age structure and sex ratio remains constant.

(4) NO CHANGE IN CLIMATE

If there is a change in climate, then goods specific to that climate will be demanded more even when there is no fall in price of such goods. Thus, the law of demand assumes that the climate and weather conditions remain the same.

(5) NO CHANGE IN TAXATION POLICY

It is assumed that the taxation policy of government remains constant. If the government levies higher tax, then the disposable income available with the consumer will fall. As a result, his demand will also fall even though there is no increase in the price of the commodity.

(6) NO CHANGE IN OVERALL POPULATION SIZE

An increase or decrease in size of population will lead to an increase or decrease in demand respectively. Hence, it is assumed that there is no change in population size.

(7) NO CHANGE IN REGULAR ADVERTISEMENTS

An aggressive promotion campaign for a certain product may lead to a surge (increase) in its demand irrespective of the change in price. Similarly, if the advertisements are reduced, the demand for that product may fall to a certain extent. As a result, the law of demand assumes that there is no change in regular advertisements.

(8) NO CHANGE IN DISTRIBUTION OF INCOME

Any change in distribution of income in the economy can lead to a change in general demand in the economy. Thus, the law assumes that there is no change in the distribution of income.

(9) NO CHANGE IN INCOME

When the income of a person rises or falls, his demand for goods and services rises or falls respectively without a change in price for such goods and services. Therefore, the law of demand assumes that there is no change in income of the consumer.

(10) NO CHANGE IN EXPECTATION REGARDING FUTURE PRICES

If people expect that prices in future will fall, they will demand less at present and demand more in the future. In short, the present demand, will fall even when prices have not increased at present. Thus, it is assumed that there is no change in expectation regarding future prices.

CONCLUSION:

The law of demand establishes that demand and price have an inverse relation. However, it neglects, other things or it assumes that other things remain constant which is not practical.

Q5. What are the exceptions to the Law of Demand? (MAR'08, '09, '12, '14, '16, SEP'09, '14, JUL'18)

ANS. Dr. Alfred Marshall has explained the law of demand as follows, "Other things being constant, higher the price of the commodity, smaller is the quantity demanded and lower the price of the commodity, larger is quantity demanded."
In simple words, demand and price have an inverse relation. However, there are certain exceptions to the law of demand as follows:
(SMART CODE : Giffen HIDDEN PF)

(1) GIFFEN GOODS

Giffen Goods are inferior goods like jowar, vanaspati ghee (Dalda), low quality rice, etc. In case of such goods, when the price falls, less quantity is demanded than before. This happens because every person wants to constantly increase his standard of living.
Sir Robert Giffen observed this phenomenon related to bread (inferior good) and meat in England. People had limited money. Therefore, they used to consume more bread and less meat though they would have liked to have more meat and less bread. He observed that when price of bread decreased, less bread was demanded than before (as per the law of demand, the demand for bread should have been more than before). The people saved money and used it to purchase meat and thus the demand for meat increased.
This behaviour is called as "Giffen's paradox". The Giffen goods are inferior goods which have a direct relationship between price and quantity demanded. The demand curve for giffen goods slopes upwards from left to right.

NOTE: "Giffen Goods" may be asked separately as a short note. You should support

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it with the diagram of the exceptional demand curve. The diagram is given at the end of this answer.

(2) HABITUAL GOODS

If a person is habituated or addicted to certain goods, his demand for the goods may not change with change in price.
Eg: People who are addicted to social media websites like Facebook and Twitter will not reduce their usage even if the rates of internet usage are increased.

(3) IGNORANCE

Sometimes, people may not be aware of the change in price of goods in the market. If the price of a product falls and the consumers are not aware (ignorant) about the same, then their demand for the product will not increase.

(4) DEMONSTRATION EFFECT

People tend to copy other people who they look up to or who they are jealous of. In their quest to copy them, the demand for certain products will increase even if the price of such product increases.
The tendency of the low income group to imitate the consumption pattern of high income groups is known as demonstration effect.
Eg: The t-shirts of "Being Human" worn by Salman Khan have a very high demand even though the prices of those t-shirts are very high.

(5) DEMAND FOR PRESTIGE GOODS

The prestige goods are regarded as a status symbol in the society. They have a "snob appeal". Rich people may demand more of these goods when their prices rise so that they can show-off.
Eg: Diamonds, luxury sports car, high end watches, limited edition dress, etc.
(NOTE: A snob is a person who has high regard for wealth and wealthy people and looks down on people who belong to lower income groups.)

(6) EXPECTATION REGARDING FUTURE PRICES

If people expect the price of a commodity to increase in the future, they will demand more now (i.e. at present) even if the price is high.
Eg: Many Hotel owners purchased onions in huge quantity at high prices since they expected the prices to further increase in the future.

(7) NECESSITIES

The demand for certain necessities like basic foodstuffs (wheat, salt, dal, etc.)

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and basic clothing (one pair of clothes) will not change due to a change in price.

(8) PRICE ILLUSIONS OR CONSUMER'S PYSCHOLOGICAL BIAS

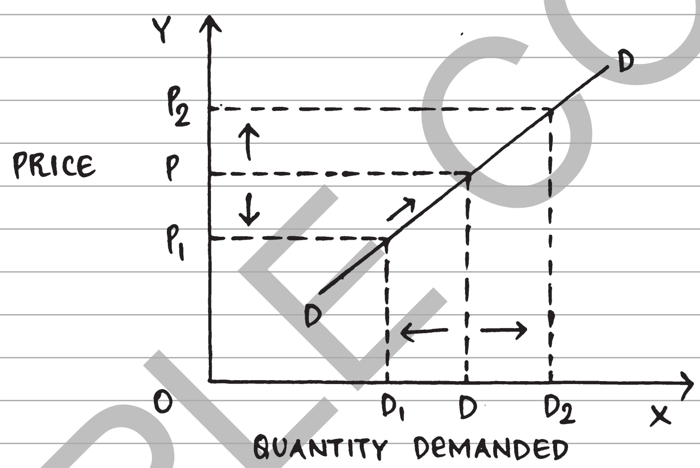
Consumers may believe that high price goods are of a better quality and therefore, demand for such goods tends to increase with increase in their price.

Eg: Students and parents believe that a coaching institute charging high fees provides good quality education. In such a case, even if the fees are increased the demand will not fall.

(9) FASHION

A product which is out of fashion (for eg: Nokia 3310) will have a less demand even if the price falls. A product which is in fashion (for eg: Android smart phones) will have a high demand even if the price rises. Thus, it is an exception to the Law.

EXCEPTIONAL DEMAND CURVE



In the above diagram, the upward sloping curve DD is the "exceptional demand curve". The Y-axis represents price and the x-axis represents corresponding quantity demanded. The demand curve DD is upward sloping from left to right which represents a direct relation between price and demand.

Q6 Why does the demand curve slope downward from left to right? (MAR'11,'12)

OR

The demand curve slopes downward from left to right. Give Reasons. (MAR'08, SEPT'10)

ANS: There is an inverse relationship between price and quantity demanded i.e. higher the price, lower the demand and lower the price, higher the demand. The demand curve slopes downward from left to right due to this inverse relationship. The following are the factors due to which demand curve slopes downward from left to right:

(SMART CODE : MINTS)

(1) MULTIPURPOSE USES

When the price of a commodity falls, the commodity which was earlier used only for very selective purposes will now be used for multiple purposes. Therefore, consumers demand higher quantity with a fall in price.

Eg: When the price of onions increases drastically, it is used only selectively for some vegetables. However, when the price of onions reduces, people use onion in all vegetables, make kanda bhaji, use it as a topping in pav bhaji, etc.

(2) INCOME EFFECT

When the price of a commodity falls, the purchasing power or buying ability of the consumer increases. He can buy more quantity in the same given income. Hence, quantity demanded increases with a fall in price. This is called as income effect.

(3) NEW BUYERS

When the price of a commodity falls, people who did not have the ability to buy are also able to buy the product now. Therefore, market demand increases due to:

(a) New buyers demanding the product.

(b) Existing buyers demanding higher quantity (Lower the price, higher the demand)

(4) THE LAW OF DMU

A consumer always tries to equate the marginal utility of a commodity with the price of the commodity. At a certain price "x", the consumer may attain his equilibrium. Now, when price of the commodity decreases, the equilibrium is affected and the consumer acquires more quantity in order to again equate the MU and price. Thus, at lower price, the consumer buys more of a commodity.

(5) SUBSTITUTION EFFECT

When the price of a commodity falls, it becomes cheaper as compared to its substitutes. As a result, people give up the substitute product and the demand for this commodity increases.

Eg: When the price of "Bisleri" mineral water falls, it becomes cheaper compared to its substitute "Aquafina" mineral water. In this case, people will demand more of "Bisleri".

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Q7 Explain 'variation' in demand.

ANS Demand is a desire backed by ability to pay and willingness to spend. Demand is that quantity that a person is ready to buy at a particular price during a specific period of time.

VARIATION IN DEMAND

(a) MEANING

When the demand for a product changes due to a change in its price, it is known as "variation in demand."

(b) REASON

Variation in demand takes place only due to a change in price. All other factors remain constant.

(c) DEMAND CURVE

Variation in demand is shown by movement along the same demand curve.

(d) TYPES

Variation in demand is of the following two types:
(1) Expansion in demand.
(2) Contraction in demand.

(1) EXPANSION IN DEMAND

(a) MEANING

Expansion (extension) in demand refers to a rise in the demand only due to fall in price.

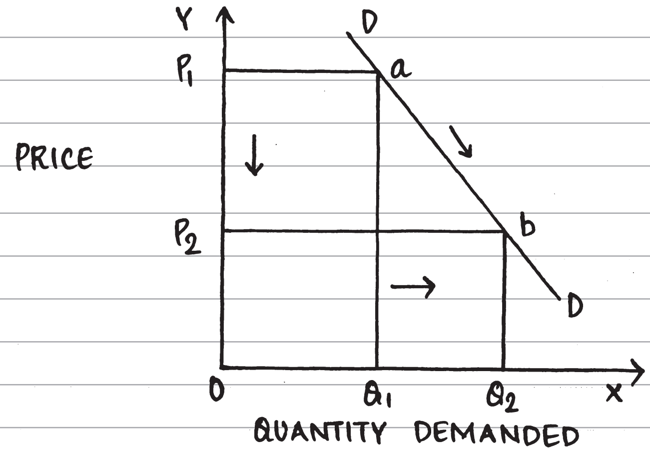
(b) REASON

Expansion in demand takes place only due to a fall in price. All other factors are constant and have no effect on demand for the commodity.

(c) DEMAND CURVE

Expansion in demand is shown by a downward movement on the demand curve.

(d) REPRESENTATION



In the above diagram, downward sloping curve DD is the demand curve. The Y-axis represents price and the X-axis represents corresponding quantity demanded. When the price falls from P_1 to P_2, the demand rises from Q_1 to Q_2. This downward movement on demand curve from point a to b represents expansion of demand.

(2) CONTRACTION IN DEMAND

(a) MEANING

Contraction in demand refers to a fall in the demand only due to rise in price.

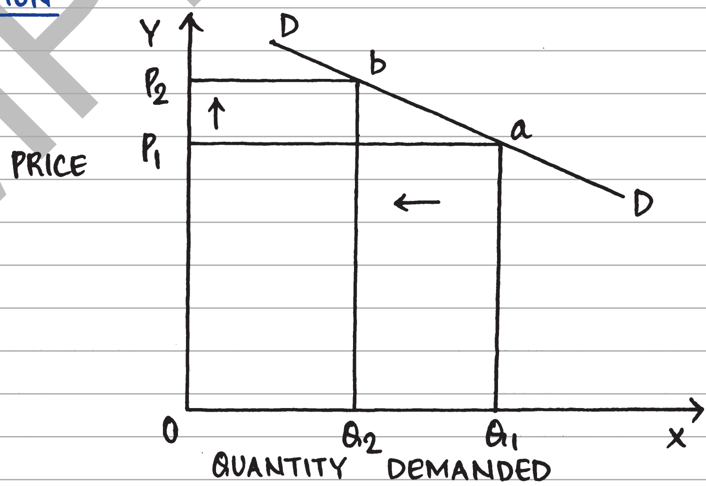
(b) REASON

Contraction in demand takes place only due to a rise in price. All other factors are constant and have no effect on demand for the commodity.

(c) DEMAND CURVE

Contraction in demand is shown by an upward movement on the demand curve.

(d) REPRESENTATION



In the above diagram, downward sloping curve DD is the demand curve. The Y-axis represents price and the X-axis represents corresponding quantity demanded (market demand). When the price rises from P_1 to P_2, the demand falls from Q_1 to Q_2. This upward movement on the demand curve from point a to b represents contraction in demand.

Q8 Explain 'change' in demand.

ANS Demand is a desire backed by ability to pay and willingness to spend. Demand is that quantity that a person is ready to buy at a particular price during a specific period of time.

CHANGE IN DEMAND

(a) MEANING

When demand for a product changes due to change in factors other than price, it is known as "change in demand".

(b) REASON

Change in demand takes place due to a change in factors other than price. In this case, price remains constant and it has no effect on the demand for the commodity.

(c) DEMAND CURVE

Change in demand cannot be shown on one demand curve. It is shown by a shift in the demand curve.

(d) TYPES

Change in demand is of the following two types:

(1) Increase in demand.

(2) Decrease in demand.

(1) INCREASE IN DEMAND

(a) MEANING

When more quantity is demanded than before at the same price, it is called as increase in demand.

(b) REASONS

Increase in demand takes place due to favourable changes in factors other than price like fashion, income, taxation policy, advertisement, tastes and habits, etc. In this case, price remains constant and it has no effect on the demand for commodity.

(c) DEMAND CURVE

Increase in demand is shown by a shift in the demand curve from left to right.

(d) REPRESENTATION

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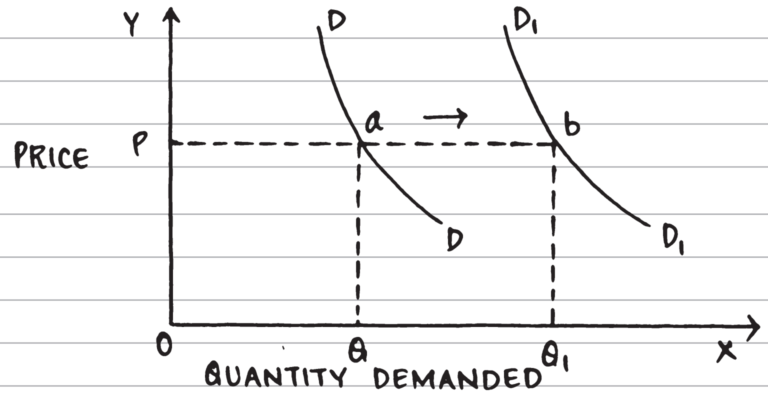


In the above diagram, the Y-axis represents price and the X-axis represents corresponding quantity demanded. The price of the commodity remains constant at P. However, the quantity demanded increases from Q to Q_1. The demand curve shifts from left to right. (DD to D_1D_1) and this indicates an increase in demand.

(2) DECREASE IN DEMAND

(a) MEANING

When less quantity is demanded than before at the same price, it is called as decrease in demand.

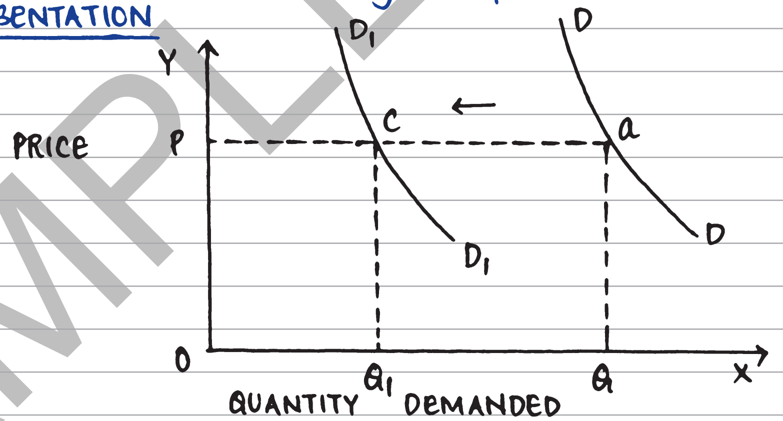
(b) REASONS

Decrease in demand takes place due to unfavourable changes in factors other than price like fashion, income, taxation policy, advertisement, tastes and habits, etc. In this case, price remains constant and it has no effect on demand for the commodity.

(c) DEMAND CURVE

Decrease in demand is shown by a shift in the demand curve from right to left.

(d) REPRESENTATION



In the above diagram, the Y-axis represents price and the X-axis represents corresponding quantity demanded. The price of the commodity remains constant at P. However, the quantity demanded decreases from Q to Q_1. The demand curve shifts from right to left. (DD to D_1D_1) and this indicates a decrease in demand.