Class: 10th Tender Heart High School
Subject: Economics
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classmate
Date 6/5/24
Page 1

Ch-2 Elementary Theory of Demand

Good Morning Students;
This lesson is for class 10th for the subject of Economics. The topic for today is 'Demand Function', which is covered in Chapter 2 titled 'Elementary Theory of Demand' of your book of Economics. This lesson is being submitted to you on 06-5-24 and the voice is of Mr. Lokesh Arora.
All the students now please open page number 44 and listen carefully

Demand function:-
There are several factors on which demand for a commodity depends. These factors may be economic, social as well as political. The influence of these factors on demand is called 'Demand Function'
Individual Demand function:-
Individual demand function shows the functional relationship between demand of a commodity by an individual consumer in the market and its various factors that determine the demand.
The various factors that affect the demand for a commodity by an individual consumer (Individual Demand Function can be expressed as:-

$$D_x = f(P_x, P_z, Y, T, E, etc.)$$

Where D_x = Demand for Commodity
P_x = Price of Commodity

10th
Economics
Lokesh Arora

Date 6/5/24
Page 2

Ch-2 Elementary Theory of Demand

Pr = Price of related Goods.
Y = Income of the Consumer.
T = Tastes and Preferences
E = Expectation of future prices.

Various Factors affecting Demand for a commodity can be explained as follows:-

(1) Price of the Commodity:-
The most affecting factor that determines the demand is the price of the commodity. The demand for a commodity increases when its price falls and decreases when the price rises. e.g Demand for mangoes is 2 kg when the price is ₹80 per kg. When the price rises to ₹100 per kg demand falls to 1kg and when the price falls to ₹60 per kg demand rises to 3 kg.

(2) Price of Related Goods:-
The demand for a commodity depends not only on its own price, but also on the prices of related goods. Related goods may be in the form of substitutes and complementary.

(a) Substitute Goods:-
Substitute goods are those goods which can be used in place of one another. For example tea and coffee, coke and pepsi etc. These are also called Competitive Goods. There is a direct relation between price of a substitute good and the demand for a the given good (main Product)

For example, when price of coffee (substitute) falls, it will become relatively cheaper as compared to tea and consumer will shift from tea to coffee and demand for tea will fall and vice-verse.

(b) Complementary Goods:-
Complementary goods are those goods which are used together to satisfy a particular want like car and petrol, pen and paper etc. There is an inverse relation between price of a complementary good and demand for a given good. An increase in the price of one good leads to a decrease in the demand for the other good.
For example:- When the price of car increases, the demand for car decreases and thereby demand for petrol will also decrease. and when the price of car falls, demand for petrol will rise.

(3) Income of the Consumer:-
Other things being equal, generally, there is direct relationship between the consumer's income and demand for a commodity. However, the effect of change in income of consumer can be discussed on the demand of following types of goods.

(a) Normal Goods:
Normal goods are the goods the demand for which increases with the increase in the income of the consumers. For

example, demand for clothes, pure milk, desi ghee, Basmati rice etc. increase when the consumer's income increases.

(b) Inferior Goods!-

Inferior goods are those goods, the demand for which falls as income of the consumer increases. Thus there is inverse relationship between income of the consumer and the amount demanded of inferior goods

For example!- A consumer may buy toned milk (yellow pkt), when his income is less, because he cannot afford to purchase pure milk (Green pkt). But as his income increases he will not buy more of toned (yellow pkt) milk, but he will start purchasing pure milk because now he can purchase better quality goods

(4) Tastes and Preferences!-

Demand for a commodity also depends on consumer's tastes and preferences. When we begin to like certain commodities, their demand will increase and when we start disliking certain commodities their demand will decrease

(5) Consumer Credit Facility!

If credit (loan) facilities are provided at low rates of interest, households would be encouraged to buy more. For example, demand for car will increase, if car loans from banks are easily and cheaply available

10th
Economics
Lokesh Arora

Ch-2 Elementary Theory of Demand

Students, before going further let us take a short break and write the answers of the following questions during the break.

Qu 1. What is Individual Demand Function?

Qu 2. How price of substitute goods affect the demand for a commodity?

Ques 3. Explain the effect of change in income on demand for inferior goods?

Differences Between Substitute Goods and Complementary Goods

Basis	Substitute Goods	Complementary Goods
(i) Meaning	These are the goods which can be used in place of one another. **Examples :** Tea and Coffee, Coke and Pepsi.	These are the goods which are consumed together (collectively demanded) to satisfy a want. **Examples :** Car and petrol, bread and butter.
(ii) Types of Demand	Substitute goods are competitive in nature.	Complementary goods have a joint demand.
(iii) Relation with Price	The demand for one good varies directly with the price of its substitute.	The demand for one good varies indirectly (or inversely) with the price of its complement.

Market Demand Function:-

Market demand function shows the functional relationship between demand of a commodity by all the consumers in the market and various factors affecting demand.

Market Demand function can be expressed as:-

$$MD_x = f(P_x, P_R, Y, T, E, N, Y_d, G, etc).$$

where MD_x = Market Demand for Commodity x.

P_x = Price of Commodity x.

P_R = Price of other related goods.

Y = Income of the Consumer.

T = Tastes and Preferences.

E = Expectations of future prices.

N = Population

10th
Economics
Lokesh Arora

Date 6/5/24
Page 6

Ch-2 Elementary Theory of Demand
Yd = Distribution of Income
G = Government Policy.

Factors affecting Market Demand:-
All the factors that affect the individual demand also affect the market demand. In addition, market demand for a commodity also depends on the following factors:-
(1) Population:-
Higher the population greater will be the demand. Lesser the population smaller will be the demand. Like the size of population its composition also affects demand. Composition means the distribution of population on the basis of sex, age etc. If the population of the female increase, demand for cosmetics, sarees etc. will rise and if the population of children increase, demand for toys, toffees, etc will rise.
(2) Season and Weather:-
The season and weather conditions also have an affect on consumer's demand. For example, demand for woolen goes up during winters. Fans, coolers, ACs etc. are demanded more during summers.
(3) Government Policy:-
Government policy can also affect the demand for a particular commodity. For example, When government impose tax

Ch-2. Elementary Theory of Demand

on a certain commodity, its demand decreases and when government grant subsidy demand increases.

(4) State of Business:-
The prevailing business conditions in a country also affect the level of demand. For example, during boom periods, market demand will increase. On the other hand, the level of demand goes down during the period of depression.

(5) Distribution of Income:-
The level of demand also depends upon the distribution of income. If there are more poor people, the demand for necessities of life will be more and if there are more rich people, the demand for luxury goods will be more.

Students, with this, I am ending my topic here. I will ask you some questions. Write the answers of the following questions in your note-books

Qu 1. Explain the difference between Substitute Goods and Complementary Goods.
2. What is Market Demand Function?
3. Explain any two factors effecting market demand.

Last page