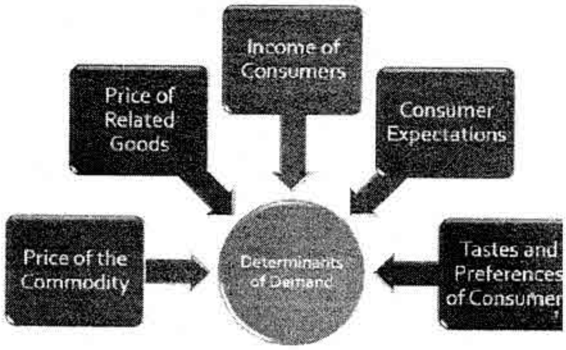
DEMAND

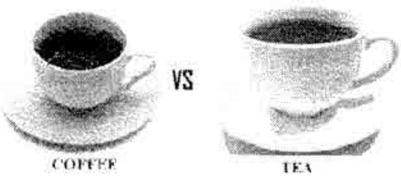
Determinants of Demand

- **Price** of the good
- Price of related goods [substitutes and complements]
- The income of the consumer
- Tastes, Preferences, Habits of the consumer
- Fashion
- Advertising
- Expectations of future prices, changes in income...
- Number of Buyers (Population change)
- Weather condition
- Taxation
- Legislation
- Any other factor capable of affecting the demand...



Substitute Goods & Complementary Goods

Basis	Substitute Goods	Complementary Goods
Meaning	Substitute goods refer to **those goods which can be used in place of one another** to satisfy a particular want.	Complementary goods refer to **those goods which are used together** to satisfy a particular want.
Nature of Demand	Substitute goods have **competitive demand**.	Complementary goods have **joint demand**.
Relation	Price of one substitute good has **positive relationship** with quantity demanded of another substitute good.	Price of a complementary good has **negative relationship** with quantity demanded of another complementary good.
Examples	**(1) Tea and Coffee** **(ii) Coke and Pepsi.**	**(i) Tea and sugar** **(ii) Car and Petrol.**




Complements (coffee and *donuts*)	
Reducing the price of one...	*increases* the demand for the other.
Increasing the price of one...	*reduces* the demand for the other.

Substitutes (coffee and tea)	
Increasing the price of one...	*increases* the demand for the other.
Reducing the price of one...	*reduces* the demand for the other.

- Normal goods are those goods whose demand goes up when the consumer's income increases.
- Inferior goods are those goods whose demand falls when the consumer's income increases.

Example :

- *Margarine vs. Butter vs. Olive Oil*
- *Public transportation vs. Privately Owned Cars*
- *Frozen Dinners vs. Organic food*
- *instant noodle vs. meat*
- *basic phone vs. smartphone*
- *regular clothing vs. designer clothing*

http://www.slideshare.net/kinnar32/demand-and-supply-10239895

Normal good (YED>0)
- Increased income leads to higher demand

Luxury good (YED>1)
- Increased income leads to bigger percentage increase in demand. e.g. sports cars.

Inferior good (YED<0)
- Increased income leads to fall in demand, e.g. cheap substitutes (supermarket coffee)

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- Examples of **normal goods** are demand of LCD and plasma television, demand for more expensive cars, branded clothes, expensive houses, diamonds etc....