

DEMAND – DIFFERENT TYPES OF FACTORS INFLUENCING DEMAND

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ABSTRACT:

In Economics “demand” means the desire to have a commodity backed by its purchasing power. In a market driven economic age it is very essential to study which factors effect demand. It is interesting to note in this context, that all the factors effecting demand may not influence it simultaneously. The degree of their influence may also vary from man to man, from time to time and from place to place. So there was an excellent opportunity to research on this topic. Hence, a study was pursued to explore the factors influencing demand. The research objectives of the current study were framed to understand the meaning of the word “demand” and explore the different types of factors that influence demand. A detailed review of the available literatures on this topic or related topics revealed that there have been prior researches pursued on this topic. Hence, it would be wrong to call it a basic or fundamental research. The main purpose of this research was to refine the existing knowledge on this topic. Thus, this research took the shape of an applied or refining research. The data required for the research was collected from secondary sources likes books, journals, magazines, e – magazines etc. Analyses of the factors that influence demand are a need of the individual, tastes and preferences, income of the individual, price of the commodity, prices of the related commodities, expectations regarding future price changes, demonstration effect, number of consumers, population and its composition, advertisement expenditure, terms of credit and rate of interest, introduction of new products and distribution of income.

Key Words: Demand, factors, individual, market etc.

INTRODUCTION:

The word “demand” has a different meaning in economics compared to what it has in the language of English. Usually while communicating in English, this word is used to mean the desire to have a commodity. But in economics “demand” means the desire to have a commodity backed by its purchasing power. For example, say a person has a demand for a Mercedes Benz. This is perfect in communicative English. But in Economics, to be meaningful, that person can have the demand for the Mercedes Benz only when he has the purchasing power; otherwise, his demand will have no value.

Demand of a consumer or customer depends on various factors. Examples of these factors are purchasing power, topography, climate and weather, habits, tastes, preferences, supply, price etc. That is why; different consumers and customers have different types of demands. In a market driven economic age it is very essential to study which factors effect demand. It is interesting to note in this context, that all the factors effecting demand may not influence it simultaneously. The degree of their influence may also vary from man to man, from time to time and from place to place. So there was an excellent opportunity to research on this topic.

Hence, a study was pursued to explore the factors influencing demand.

LITERATURE REVIEW:

Sarkhel (2001), world famous Bengali economist from India, wrote that the term “demand” in the ordinary sense means one’s desire to have or to buy something. In Economics, demand does not simply mean the desire to buy something. To be treated as demand the desire must be backed by purchasing power. He also said that demand is always expressed with reference to a particular time period such as demand per day or demand per month or demand per year, etc. In order to be meaningful the time period for which the demand is related must be mentioned. Demand is related to a particular commodity and the commodity must be mentioned specifically. The quantity demanded for a particular commodity may vary from one place to another. However, reference to a place is necessary only in case of market demand. In the case of individual demand it is not so important. Market demand or individual demand may change with changing price.

Mukherjee (2000), one of the leading professors and writers of Economics in India from St. Xavier’s College, Kolkata, stated that demand has always a reference to the price of a commodity. Nobody can say how much quantity of the commodity he demands unless he is stated the price at which per unit of the quantity is being sold out. Demand at a given price

means the amount of a commodity that an individual is willing, to buy at that price. The demand price of a commodity is the price at which each particular unit of the commodity will find a buyer in the market.

Sarkhel (1999), wrote that the among the determinants of individual demand the important ones are (i) need of the individual (ii) tastes and preferences (iii) income of the individual (iv) price of the commodity (v) prices of other commodities related to this commodity (vi) expectations of the individual regarding future price change and (vii) demonstration effect.

RESEARCH OBJECTIVES:

The research objectives of the current study were framed as follows:

- To understand the meaning of the word “demand”.
- Explore the different types of factors that influence demand.

RESEARCH METHODOLOGY:

A detailed review of the available literatures on this topic or related topics revealed that there have been prior researches pursued on this topic. So this research is not a first of its kind. It has its roots in prior researches. Hence, it would be wrong to call it a basic or fundamental research. The main purpose of this research was to refine the existing knowledge on this topic. Thus, this research took the shape of an applied or refining research.

DATA:

The data required for the research was collected from secondary sources likes books, journals, magazines, online research Journals and e – newspapers etc.

ANALYSIS & CONCLUSIONS:

The demand for any commodity arises because it is needed to satisfy wants. If any commodity does not satisfy any want, it will not be needed and will not be demanded at all. The greater the need the greater will be demand for that commodity.

Analyses of the factors that influence demand are as follows:

- Need of the Individual:

The demand for any commodity arises because it is needed to satisfy wants. If any commodity does not satisfy any want, it will not be needed and it will not be demanded at all.

- Tastes and Preferences:

Demand for any commodity also depends on tastes and preferences of the individual. Tastes and preferences are subjective factors. And they are likely to vary from one individual to another. Demand will change if tastes and preferences change.

- Income of the Individual:

The income of the individual is the main determinant of individual's demand for any commodity. The greater the income of the individual, the greater will be his demand for any commodity.

- Price of the Commodity:

The most important determinant for demand of any commodity is its price. Generally, the lower the price the greater is the demand for the commodity by the individual and vice versa. However, this rule has an exception. In the case of Giffen goods, the quantity demanded increases as price increases and vice versa.

- Prices of the Related Commodities:

The individual demand for any commodity depends not only on the price of that commodity but also on the prices of its related commodities. Other related commodities may be either substitute goods or complementary goods. Two goods are said to be substitutes to each other if one is taken in place of the other. On the other hand, two goods are said to be compliments if they are jointly consumed. For example, tea and coffee are substitutes while tea and sugar are compliments.

- Expectations Regarding Future Price Changes:

The individual demand also depends on the expectations of the individual regarding future price change. Different individuals may have different expectations. Some may expect prices to go up in future while some may expect prices to go down in future. If an individual expects prices to go up in future, he will demand more than an individual who expects prices to fall in future.

- Demonstration Effect:

Demonstration effect refers to the effect of purchase of any commodity by an individual on the purchase of others. For example, when an individual in a locality purchases a T.V. set his neighbors may also purchase T.V. sets as a result of the demonstration effect.

- Number of Consumers:

Total market demand depends on the number of consumers in the market. The greater the number of consumers the greater will be the market demand.

- Population and its Composition:

The number of consumers again depends on the population of the country. As population increases the number of consumers also increases. Demand for certain commodities also depend on the composition of population. For example, the demand for baby food depends on the number of babies in total population.

- Advertisement Expenditure:

Market demand is also influenced by advertisement expenditure incurred by firms. The greater the amount of advertisement expenditure the greater is likely to be the demand for any commodity.

- Terms of Credit and Rate of Interest:

Many durable consumer goods are purchased by taking loans. Their demand will depend on the terms in which loans are obtained and on the rate of interest. This factor is not very important for agricultural products.

- Introduction of New Products:

If new products are introduced in the markets, it reduces the demand for old products. For example, when a new model of a car is introduced the demand for the old model decreases. This factor is not much relevant for the demand for agricultural products.

- Distribution of Income:

Total market demand also depends on the distribution of demand. Since different individuals have different marginal propensities to consume total demand may be affected even if total income remains the same.

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