Demand and Supply - Business Studies Form 3 Notes

Demand

- Quantity of a commodity that buyers are willing and are able to buy at a given price over a given period of time.

Factors that Influence the Demand of a Product/Determinant of Demand

a. Price of the commodity
   - When the price of a product increases its demand decreases and when the price decreases its demand increases.
b. Level of consumer income
   - An increase in consumers disposable income generally leads to an increase in the demand for goods and services because the ability to buy increases.
c. Price of other related products
   - Commodities are related in two ways. That is as either complimentary or as a substitute.
   - Complementary are goods used together while substitutes can be used instead of each other. Hence the demand for a commodity can be affected by the prices of other commodities depending on the relationship. Reduction of price of a substitute will reduce the demand of the substituted goods while increase in price of the complimentary goods will reduce the demand for the goods.
d. Changes in taste, fashion and preference of consumers
   - If taste change in favor of commodity, more of that commodity is likely to be bought even if it‟s expensive
e. Government policy
   - The government may come up with policies that are meant to encourages or discourage the consumption of certain commodities.
   - This policies may be inform of:

  - Taxation
    - An increase in tax on commodity increases its price which makes its demand to fall and vice versa.
  - Subsidies
    - The government meets part of a cost or production of a commodity so that it can be sold cheaply. Hence the demand rises
  - Legislation
    - The government may pass laws meant to encourage or discourage consumption of a certain commodities.
  - Price controls
    - The government may control the price of certain commodities to ensure that they do not go beyond a certain limit.

f. Change in the population
   - An increase in population will bring about an increase in demand for goods and services.
   - While a decrease in population will reduce demand.

g. Future expectations of changes in price and quantities supplied
   - If the consumers expect prices of commodity to rise or shortage of the supply of the commodities in future they will buy more of it. while if they anticipate a decline in price of a commodity, they may buy less of it when the price is still high.

h. Seasonal changes
   - Demand for some commodities depends on the season.

i. The distribution of incomes
   - The demands for goods and services is usually higher when incomes are distributed among many people as opposed to where incomes are in the hands of a few people.

j. Terms of sale
   - The demands for goods or services can increase if and when favorable terms of sale are offered to consumers. The terms may be offering goods on credit, giving discounts to consumers and lengthening the credit period.

Derived Demand

- Derived demand is where a good is needed because it give rise to a commodity that is actually demanded e.g. hen and eggs

Joint Demand

- These are goods that are consumed together .E.g. tea and sugar

Demand Schedule

- It is a table showing the quantities of a commodities that consumers are willing and are able to buy at different prices within a given period of time.

Demand Curve

- A graph showing the quantities demanded against the prices. On the y axis is recorded the price and on the x axis the quantities demanded.
- The tendency of the demand to increase as prices decrease and to reduce as prices increase is referred to as the law of demand. By obeying the law of demand, the demand curve slopes downwards from left to right.