

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE  
(Autonomous)**

Accredited by NAAC – UGC with 'A+ Grade (Cycle IV)  
(Recognised by UGC, Approved by AICTE & Affiliated to Bharathiar University)  
Coimbatore- 49

**DEPARTMENT OF COMMERCE WITH  
INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS  
Demand Analysis**

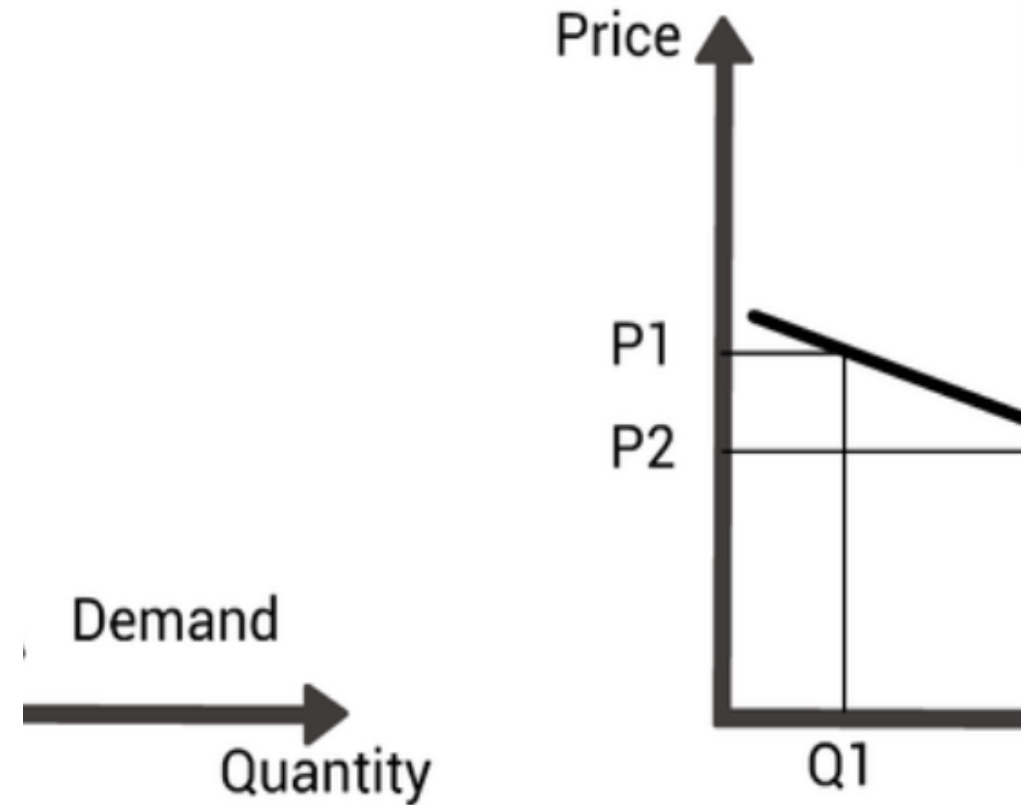
**Dr. R.Arthi**, M.Com (IB),M.Phil., MBA.,M.Com.,Ph.D.,  
**Assistant Professor,**  
**Department of Commerce with Information Technology**

# Meaning of Demand Analysis

**Demand Analysis** is the scientific process of understanding the factors that influence consumer demand for a product or service. It goes beyond simple "desire" to measure effective demand.

$$D_x = f(P_x, Y, P_r, T, E)$$

Where  $P_x$  is Price,  $Y$  is Income,  $P_r$  is Related Goods,  $T$  is Taste, and  $E$  is Expectations.



# Concept: Effective Demand

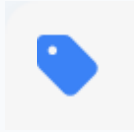


## Desire vs. Demand

In economics, "desire" alone does not constitute demand.  
For demand to be effective, three conditions must be met:

- ♥ **Desire** to acquire the commodity.
- 👛 **Ability** to pay (Purchasing Power).
- 💵 **Willingness** to pay the price.

# Determinants of Demand



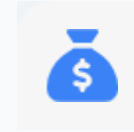
**Price of Goods**

Inverse relationship

**Key  
Determinants**



Factors shifting  
the curve



**Income**

Normal vs. Inferior



**Related Goods**

Substitutes & Complements



**Tastes**

Trends & Fashion

# Price of the Product

This is the most critical determinant. According to the **Law of Demand**, there is an inverse relationship between price and quantity demanded.

↑ **Price Rises** : Demand Falls

↓ **Price Falls** : Demand Rises

*(Ceteris paribus - assuming other factors remain constant)*



# Prices of Related Goods

## Substitutes

Goods that can be used in place of one another (e.g., Tea & Coffee). If the price of Tea rises, demand for Coffee increases.

## Complements

Goods that are used together (e.g., Car & Fuel). If the price of Fuel rises, demand for Cars may decrease.



# Tastes & Preferences



Demand is heavily influenced by subjective factors like social trends, fashion, and advertising.

A "Demonstration Effect" often occurs where people demand goods to mimic the lifestyle of others (keeping up with the Joneses).

**Example: The shift in demand from keypad phones to smartphones driven by technology trends.**

# Why is this Analysis Important?



## **Forecasting Sales:**

Helps manufacturers plan production schedules and inventory.



## **Pricing Strategy:**

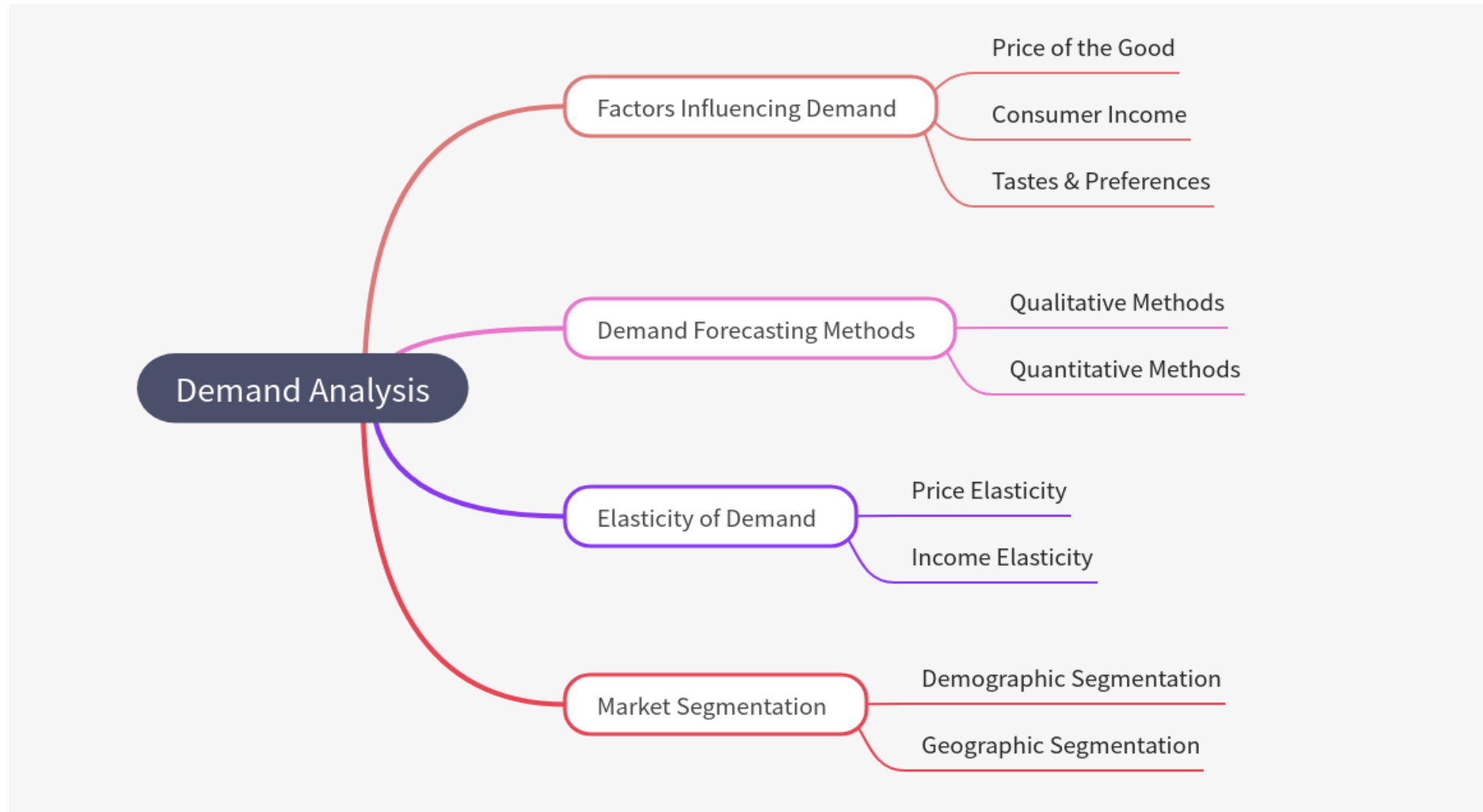
Determines how much the market can bear before demand drops.



## **Market Expansion:**

Identifies new target demographics based on income and taste changes.

# Mind Map : Demand Analysis



# Question & Answers



1. What is demand?
2. State the law of demand.
3. What happens to demand when price increases, according to the law of demand?
4. Name one factor affecting demand.
5. Give an example of a substitute good.
6. Give an example of a complementary good.
7. What is meant by elastic demand?
8. What is meant by inelastic demand?

# Case Study



A local bakery sells cupcakes at ₹30 each. Over the past month, sales have dropped even though the price remained the same. On investigation, the bakery finds that:

A new bakery opened nearby offering buy-one-get-one-free cupcakes.

Many customers shifted their preference to cookies and pastries.

Local incomes decreased due to a nearby factory closure.

## Question

Identify **three factors** that caused a fall in the demand for cupcakes.

Explain how each factor influenced demand.

# Case Study



## **Solution**

The fall in cupcake demand is due to the following factors:

### **Price of Substitute Goods:**

The new bakery offering BOGO deals made cupcakes cheaper elsewhere, causing customers to shift. Demand decreased.

### **Change in Tastes and Preferences:**

Customers preferred cookies and pastries, reducing their desire for cupcakes. Lower preference → lower demand.

### **Decrease in Income:**

With job losses, people had less disposable income and reduced spending on non-essential items like cupcakes. Income ↓ → Demand ↓.