

# A Study Towards the Factors that Affects Demand and Its Price

Dr. Mahantesh V. Angadi

Associate Professor, Government First Grade College, Raichur-584101

**Abstract:** Amount of a good or service that society is willing to purchase at specific pricing and within a specific time period is determined by demand. This idea is essential because it allows companies to predict sales outcomes, determine the right pricing, and choose how much to manufacture. Among these are the cost of the product or service, the consumers' income, their preferences, and consumer preferences as well as the costs of related products like alternatives and complements.

According to the demand principle, when prices are high for a good or service, the demand for that item tends to decrease, and conversely. When incomes rise, the demand for goods and services increases, whereas a decline in income results in a reduced demand. Additionally, consumer preferences play a significant role in demand; what people wish to purchase can shift frequently. Demand may also be affected by price-related factors; for example, if exchange rates rise, the demand for certain products might increase while others may not. Furthermore, social and behavioral trends, advertising techniques, and seasonal shifts in consumer attitudes or purchasing habits can also impact demand. Understanding these elements is essential for effectively managing and guiding economic activities.

**Key Words:** Demand, income, consumers, price

## INTRODUCTION

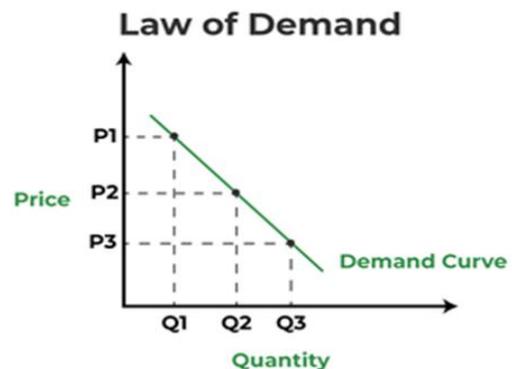
Demand theory is the foundation of economics. Market economic research has been heavily influenced by the notion that satisfying desires determines market demand ever since Adam Smith. The theory of demand describes the connection between consumer demand and the cost of a good or service in a market. The word "utility" was first used by Jeremy Bentham in the late 1700s, marking a significant development in demand theory. This relates to the satisfaction of wants and needs. His theory states that utility is a quantifiable attribute.

Demand indicates how much consumers are willing to pay for a particular good or service at a particular price over a given time period. The law of demand shows that there is a negative correlation between price and demand.

As the price of good or service decreases, people are more likely to buy more of it. However, demand is not constant. Advertising, wealth, and consumer preferences are just a few of the numerous variables that affect demand and can lead to different price variations. In order to provide additional insights into market analysis, this article will examine the relationship between demand theory and prices through a case study and literature review.

The comprehension of demand variables is essential for understanding consumer behavior, market behavior, and business economics. Demand is the quantity of a good or service that consumers are willing to buy at various prices during a specific period of time.

The Law of Demand:



Adam Smith and Alfred Marshall, two classical economists, introduced the concept of demand theory. Adam Smith merely laid the foundation; he did not explicitly provide the law of demand. Alfred Marshall introduced the concept of the demand curve in his

book Principles of Economics (1890). With the aid of the demand curve, researchers discovered the idea of consumer behavior in the 19th century. Demand law is based on the idea of consumer behavior. According to demand law, the quantity demanded and the price of a good are inversely related. It also clarifies how supply and demand are related to consumers.

This law states that, under the assumption that all other variables remain constant, the quantity demanded for a good rises when its price decreases. Find the best products and prices by pooling market resources.

The idea of consumer behavior—where people look for ways to benefit or satisfy themselves—is the foundation of the law of demand. The law has also been amended and broadened to cover a wide range of additional requirements, including interest and income. Griffin and Veblen goods are examples of legal exceptions that highlight the intricacy of consumer behavior and the impact of social and psychological elements. Economists, companies, and policymakers should all understand the law of demand since it sheds light on how consumers and businesses make decisions.

#### FACTORS AFFECTING DEMAND AND PRICE

There are other factors that affect demand besides price. Demand determinants are a number of significant factors that impact a market's level of demand.

##### 1. The cost of the good or service:



Out of all the variables, the cost of a specific good or service has the biggest impact on demand. According

to the demand law, demand will typically increase if prices are lowered and decrease if prices are raised. However, since other factors like earnings, preferences, and external factors can affect the result, a price-demand relationship is not always significant.

**Consumer Income** Consumer income is another important factor that influences demand. For example, when income rises and people have more purchasing power, there may be a rise in demand for some basic goods. Applying factors that reduce income could have a negative impact on the demand for specialized goods in today's market. However, if consumers prefer better products, more money might lessen the demand for inexpensive ones.

##### 2. Customer Preferences

Consumer tastes and preferences have a significant impact on demand, and as a result of a variety of cultural, technological, trend, and even advertising factors, this requirement is continuously present over time. For instance, even expensive electric automobiles may sell well as a result of a growing trend for electric vehicles. Consumer preferences often shift as a result of fashion, health challenges, or other factors including the environment.

##### 3. Cost of Other Items



The prices of other items that fall into the whole and part categories of complements and substitutes also have an impact on a commodity's demand. Products that can be used in place of others, like butter and even margarine, are called substitutes, whereas products that go well together, like vehicles and gasoline, are called complements. Because these customers might immediately switch to the now less expensive product, a price increase for a substitute could raise demand for the original product. It is also true that if the price of a complementary product increases, the demand for the linked product is likely to decline.

#### 4. Future Price Expectations:

The present price at which things will be purchased in the market can also be determined by expectations. People will invest and purchase more of a good or service if they anticipate that its price will increase in the future, which will increase demand for it now. On the other hand, if customers think that a product's price will drop, they will want to purchase it someday, which will reduce demand now.

#### 5. Anticipations of Future Prices

Anticipations can influence the current market price for goods. When individuals believe that the price of a particular good or service will increase in the future, they are more likely to purchase and invest in it, leading to a rise in current demand. Conversely, if consumers expect that the price of a good will decrease, they may choose to postpone their purchase until later, resulting in a reduction in present demand.

#### 6. Influencing Elements (Demographics, Regulatory Frameworks, etc.)

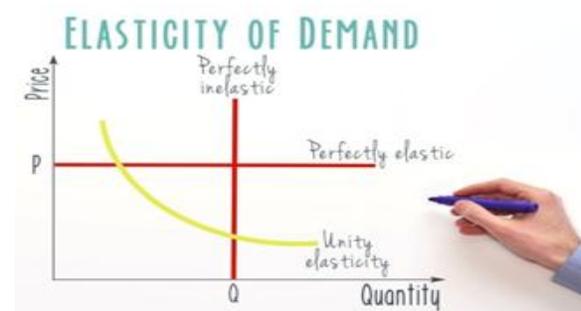
The market also accounts for various external short and long-term factors; factors such as population growth, government regulations, and advancements in technology are recognized as significant influences on demand. A consistently increasing population is anticipated to drive up the demand for numerous goods and services. Governments frequently adjust their policies, such as reducing taxes, which, along with certain incentives, leads to a rise in consumers and consequently boosts demand. Additionally, changes in demand within the market can occur due to the introduction of improved or innovative products that make older versions obsolete.

#### Types of Demand:

##### 1. Demand from Individuals Compared to Market Demand

Individual demand refers to the desire of a single person to buy a good or service, whereas market demand represents the total demand for a specific good or service across all individuals in an economy when they are each considered. Market demand is essentially the aggregation of individual demands at various price levels.

#### 2. Elasticity of Demand with Respect to Price



The price elasticity of demand refers to the degree to which the quantity demanded of a product changes in response to price fluctuations. The elasticity of demand is assessed by comparing the percentage change in quantity demanded with the percentage change in price, which helps identify if demand is elastic or inelastic. Several factors influence the elasticity of demand, such as marketing strategies, the presence of substitutes, the necessity of the product, and the speed at which consumers can adjust to changes in price.

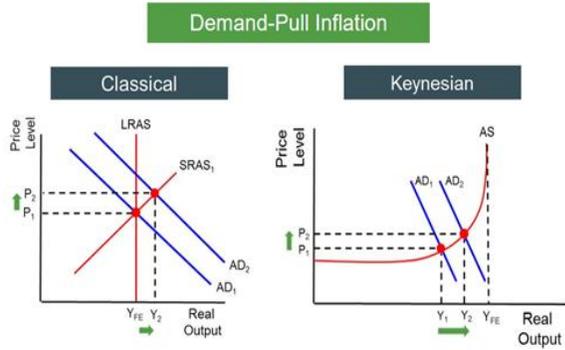
#### 3. Demand Elasticity by Income

The demand reaction to a change in the average consumer's income within a given economy is measured by income elasticity of demand. A typical good is said to have positive income elasticity when demand for it rises in tandem with income. Since demand declines as income rises, the opposite is true for the inferior good, where income elasticity is negative.

A study on factors affecting demand and price in a foreign country would primarily focus on economic indicators like inflation, interest rates, exchange rates, consumer income levels, political stability, consumer preferences in the target market, availability of substitutes, marketing efforts, and the overall economic health of both the exporting and importing countries; all of which influence how much of a product is demanded and at what price in the foreign market.

Key factors to consider:

Economic Factors:

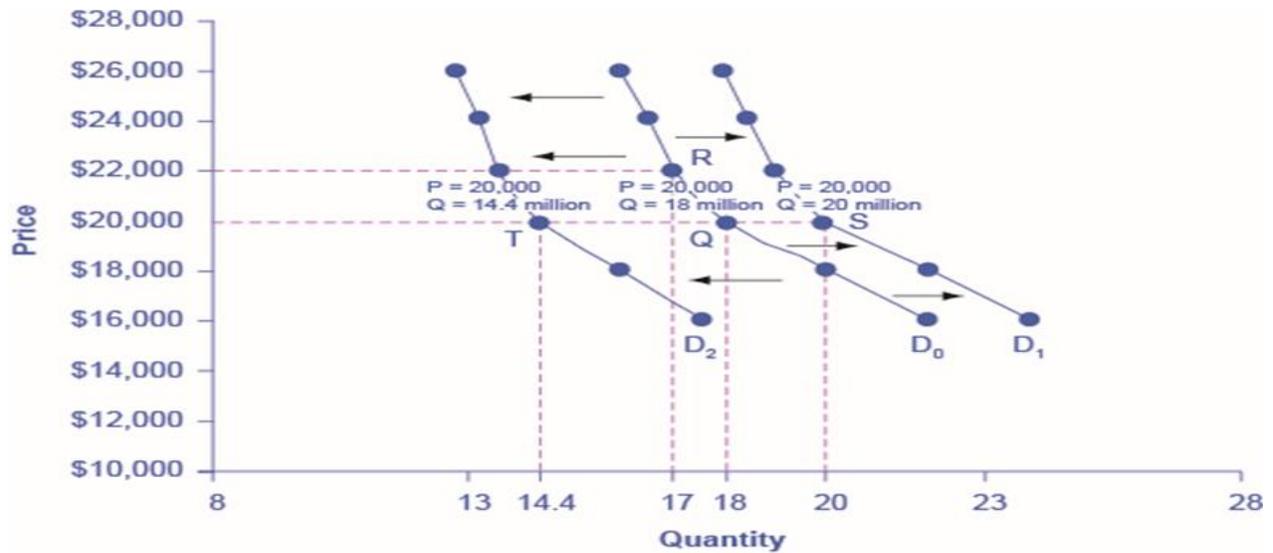


**Inflation:**

High inflation in the target country can lead to decreased purchasing power, reducing demand for goods.

- **Interest Rates:**

Higher interest rates in the target country can attract foreign investment, potentially strengthening the currency and making exports more expensive.



- **Economic Growth:**

A growing economy in the target market can stimulate demand for imported goods.

**Market Factors:**

- **Consumer Preferences:**

Understanding the tastes and preferences of consumers in the foreign market is crucial for determining demand for a product.

- **Availability of Substitutes:**

- **Exchange Rates:** Fluctuations in the exchange rate directly impact the price of imported goods in the foreign market.

- **Income Levels:**

Higher disposable income in the target market generally leads to increased demand for imported goods.

**Effect of Income on Demand**

Let's use income as an example of how factors other than price affect demand. Figure 1 shows the initial demand for automobiles as D0. At point Q, for example, if the price is \$20,000 per car, the quantity of cars demanded is 18 million. D0 also shows how the quantity of cars demanded would change as a result of a higher or lower price. For example, if the price of a car rose to \$22,000, the quantity demanded would decrease to 17 million, at point R.

If similar products are readily available domestically, it can limit demand for imported goods.



- **Marketing and Branding:**  
Effective marketing strategies can influence consumer perception and increase demand.



**Distribution Channels:**



Efficient distribution networks are essential for reaching consumers in the target market.

**Political Factors:**

**Political Stability:**

Political instability can deter foreign investment and disrupt market activity.

- **Government Policies:**



Import tariffs, quotas, and other trade regulations can significantly affect the price and demand for imported goods.

**Other Considerations:**

- **Seasonality:**  
Some products may experience seasonal demand fluctuations based on the target market's climate or cultural events.
- **Technology:**  
Technological advancements can influence demand for newer products and features.

## CONCLUSION

One fundamental economic principle that has an impact on every aspect of the economy is demand. Pricing, production, and distribution are all covered. Even while price is the primary factor influencing demand, other factors including income and consumer desire, as well as the cost of comparable products and projections for future pricing, can have a big influence. Targeting companies and legislators wishing to modify their marketing tactics requires an understanding of these elements. Future studies could look at how demand patterns are affected by new themes like sustainability and digital transformation. Additionally, the long-term consequences of global economic variables like unemployment and inflation

## REFERENCE

- [1] Krugman, P., & Wells, R. (2018). *Microeconomics* (5th ed.). Worth Publishers.
- [2] Stieglitz, J. E., & Walsh, C. E. (2006). *Principles of Microeconomics* (4th ed.). W.W. Norton & Company
- [3] Ahmed, A. (2011, June 30). Advertising's Effects on Demand. Small Business -Chron.Com. <https://smallbusiness.chron.com/advertisings-effects-demand-11673.html>
- [4] Mankiw, N. G. (2021). *Principles of Economics* (9th ed.). Cengage Learning.
- [5] Amos WEB is Economics: Encyclopedic WEB\*pedia. (n.d.). Consumer Demand Theory.
- [6] Pal, D., & Mitra, S. K. (2019). Oil price and automobile stock return co-movement: A wavelet coherence analysis. *Economic Modelling*, 76, 172–181
- [7] Corporate Finance Institute. (2020, September 25). Demand Theory. Corporate Finance Institute.
- [8] Case, K. E., Fair, R. C., & Oster, S. M. (2017). *Principles of Economics* (12th ed.). Pearson.