

# Managerial Economics

By:  
MugdhaVaidya  
Assistant Professor  
Dr. V.N. BRIMS

# Recapitulating - Demand

- ① Definition
- ① Types of demand
  - > Direct and Derived demand
  - > Recurring and Replacement demand
  - > Complementary and Competing demand

# General Determinants of Demand

- ① Price of the product
- ① Income of the consumers
  - > Normal goods
  - > Inferior goods
- ① Price of related products
- ① Tastes and preferences
- ① Advertising
- ① Consumer expectation of future Income and Price
- ① Population and Economic growth

# Law of Demand

- ① Law of Demand states that other things remaining the same, demand for a product is inversely proportional to price of the product
- ① Reasons behind Law of Demand
  - > Price effect
  - > Substitution effect
  - > Diminishing marginal utility
  - > Income effect

## Demand Schedule and Demand Curve

- Demand schedule is the list or tabular statement of the different combinations of price and quantity demanded
- Demand Curve is a graphical representation of the demand schedule of any commodity and it shows the relationship between price of a good and quantity demanded by the consumers

# Exceptions to Law of Demand

- ⦿ Giffengoods
- ⦿ Snob appeal
- ⦿ Demonstration effect
- ⦿ Future expectations of price
- ⦿ Goods with no substitutes

# Elasticity of Demand

- ① Law of demand gives the direction of change in quantity demanded in response to a given change in price of a commodity
- ① Elasticity of demand measures the degree of responsiveness of the quantity demanded of a commodity to a given change in any of the determinants of demand
- ① Elasticity of demand shows % change in quantity demanded of a commodity to a % change in any of the determinants of demand for that commodity

# Types of Elasticity of Demand

- ① Price elasticity of Demand
- ① Income elasticity of Demand
- ① Cross elasticity of Demand
- ① Advertising(promotional) elasticity of Demand



# Price Elasticity of Demand

- ◎ It measures the proportionate change in quantity demanded of a commodity to a given change in price
- ◎ Degrees of Price elasticity
  - > Perfectly elastic demand
  - > Highly elastic demand
  - > Unitary elastic demand
  - > Relatively inelastic demand
  - > Perfectly inelastic demand

# Determinants of Price elasticity of demand

- ① Nature of commodity- Necessity VS Luxury
- ① Availability and proximity of substitutes
- ① Alternative uses of the commodity
- ① Proportion of income spent on the commodity
- ① Time- long run VS short run
- ① Durability of the commodity
- ① Items of addiction

# Income elasticity of Demand

- ◎ It measures the degree of responsiveness of demand for a commodity to a given change in consumer's income
- ◎ Degrees of Income elasticity
  - > Perfectly elastic
  - > Perfectly inelastic
  - > Relatively elastic
  - > Relatively inelastic
  - > Unitary elastic
- ◎ Positive( for normal goods) , Zero (for neutral goods) or Negative (for inferior goods) Income Elasticity

## Promotional Elasticity of Demand

- It measures the degree of responsiveness of demand to a given change in advertising expenditure
- When elasticity is  $>1$ , a firm should go for higher expenditure on advertising
- When elasticity is  $<1$ , a firm should not spend too much on advertising

# Cross Elasticity of Demand

- It measures the degree of responsiveness of demand for one good to the given change in price of another related commodity
- Degrees of Elasticity
  - > Positive Cross Elasticity
  - > Negative Cross Elasticity

# Application of Elasticity of Demand

- ① Determination of Price
- ① Basis for price discrimination
- ① Government policies of Taxation