Exceptions of law of demand

“ The law demand states that other things remaining constant quantity demanded of a commodity increases with a fall in price and diminishes with price increases”

Demand for a product is, therefore, a function of its price and this relation can be mathematically depicted as:

Qx = f(Px)

Where, x is the product, Qx is the quantity demanded of the product and Px is the price of the product.

Demand schedule

Price

Quantity (units)

10

100

9

150

8

200

For example, a consumer will purchase more pizzas if the price of pizza falls. The opposite is true if the price of pizza increase.

Assumption of law of demand

Taste and preferences of consumers remain constant.

There is ni change in the income of te consumer.

Prices of related goods don’t change.

Consumer do not expect any change in the price of commodity in near future.

INCOME EFFECT

“ Income effect is the effect on the change in the quantity demanded when real income of buyers changes as result of change in the price of commodity alone”

Change in the price of the commodity causes change in real income of consumer. Real income is that is income that is measured in terms of goods and services. Thus, demand extends with increase in real income conversely rise in price needs to fall in real income and hence contraction of demand.

Income effect can be positive or negative depending in nature of goods. When price of a commodity falls, real income of the consumer increases. Now, if the goods are normal, with increase in real income the quantity demanded of it will increase and if it is inferior goods its demand falls with increase in real income. Thus, in case of normal goods as price and quantity moves in opposite direction via change in real income, income effect is negative whereas it is positive in case of inferior goods.

INFERIOR GOODS

Inferor goods can be defined as those goods whose demand increases with decrease in income and vice versa. Thus, there exists a negative relation between money income and demand for inferior goods.

This curve is downward sloping.

Example

Transportation is a good example when income is low. It makes sense to use local buses. But as income increases, people stop using buses and start buying cars.

Thus use of buses decreases as income increases.

A low incomed family consumed bread because they cannot afford it, as their income increase demand for bread will decrease as they will start buying wheat.

GIFFEN GOODS

All giffen goods are inferior goods but all inferior goods are not giffen goods.

Giffen goods may be defined as those oods whose price effect is positive and income effect is negative. In giffen goods case demand curve slopes upward due to positive relationship between price and quantity demanded and law of demand does not hold.

A Giffen good is that product or good that defies the law of demand in terms of the relationship between its price and quantity of demand.

In economics and consumer theory, a Giffen good is one which people consume more of as price rises, violating the law of demand. In normal situations, as the price of a good rises, the substitution effect causes consumers to purchase less of it and more of substitute goods.

Giffen goods may be any inferior commodity much cheaper than its superior substitutes, consumed mostly by the poor households as an essential consumer good.

Simply put an increase in income results in a fall in demand for the good.

Example

Food items like ‘ bajra’ consumed by poor families are some example of giffen goods on which large fraction of income is spent by consumers i. e. it must have strong income effect.

EXCEPTIONS OF LAW OF DEMAND

Articles of Distinctions:

Some consumers measure the utility of a commodity entirely by its price i. e. higher the price of commodity higher is the utility. Diamonds are often cited as example. Its is because distinction is bestowed on diamond by society because of it being costly.

Ignorance:

Sometimes, out of ignorance, the consumer feel that a good is worthless of its price is low and so purchase very little quantity of same. But if the same good is priced high, it will attract more demand.

Giffen Goods:

Demand curve slopes upward due to positive relationship between price and quantity demanded and law of demand does not hold. When price of bread increased, the low paid people purchased more bread and not less of it and this is contrary to law of demand. When price of bread went up they were forced to spend more on given quantity of bread.

4. Conspicuous necessities:

Certain things become the necessities of modern life. So we have to purchase them

despite their high price. The demand for salt has to be purchase even at high price.

“ WHILE ALL GIFFIN GOODS ARE INFERIOR GOODS, ALL INFERIOR GOODS ARE NOT GIFFIN GOODS”

Inferior goods are those whose income effect is negative. Note the difference: Both in case of inferior goods and giffen goods income effect is negative. In giffen goods, negative income effect is always stronger than substitute effect. While in case of inferior goods, it may or may not be so.

Law of demand fails only if negative income effect is stronger than substitution effect. So that while law of demand may or may not fail in case of inferior goods, it must always fail in case of giffen goods. Giffen goods are exactly opposite people want more of it with higher income eg a posh car. The richer u you are the more likely you are to be able to afford it so the higher the demand in the economy as a whole.

Answer:

MARKET:

Market is a place or locality where different articles are bought and sold.

Market structure refers to the degree of completion in the market for a particular good or service.

The term market refers not necessarily to a place but always to a commodity and the buyers and sellers who are in direct competition with one another.

Monopoly

Monopoly is a market situation in which there is only one producer of a commodity with no close substitutes.

In a monopolistic environment, a single company or provider has absolute control over the supply that is released into the market, giving that particular provider the ability to dictate prices. In the absence of any competition, the lone seller is free to keep prices artificially high, without fear of being undercut by another provider. Obviously, such a scenario is usually highly unfavorable for consumers, as it gives them no recourse to seek alternatives that might force prices lower.

Features of monopoly

One seller and large number of buyers:

There should be a single producer of a commodity. He may be alone, or there may be group of partners. A monopoly firm may be owned by a person, a few numbers of partners or a joint stock company. The characteristic feature of single seller eliminates the distinction between the firm and the industry. No buyer's reaction can influence the price.

Restrictions on entry of new firms:

There are some restrictions on the entry of new firms into industry. Everybody is not allowed to enter the market. There are some rules for entery in market.

No close substitutes:

A monopoly firm produces a commodity that has no close substitutes.

As the commodity in question has no close substitute, the monopolist is at liberty to change a price according to his own wish. . Under monopoly the cross elasticity of demand is zero.

Full control over price:

Since he alone produces the commodity in market, a monopolist has full control over its price. A monopolist firm is itself ' the industry.

Possibility of price discrimination:

Many a time, a monopolist charges different prices from different consumers. It is called price discrimination.

Nature of demand curve:

In case of monopoly one firm constitutes the whole industry. The entire demand of the consumers for a product goes to the monopolist. Since the demand curve of the individual consumers lopes downward, the monopolist faces a downward sloping demand curve.

Advantages of monopoly

Monopoly avoids duplication and hence wastage of resources.

A monopoly enjoys economics of scale as it is the only supplier of product or service in the market. The benefits can be passed on to the consumers.

Due to the fact that monopolies make lot of profits, it can be used for research and development and to maintain their status as a monopoly.

Monopolies may use price discrimination which benefits the economically weaker sections of the society. For example, Indian railways provide discounts to students travelling through its network.

Monopolies can afford to invest in latest technology and machinery in order to be efficient and to avoid competition.

Disadvantages of monopoly

Poor level of service.

No consumer sovereignty.

Consumers may be charged high prices for low quality of goods and services.

Lack of competition may lead to low quality and out dated goods and services.

Zero Cost Monopoly (MR= 0)

Under certain exceptional areas, the cost of additional units of output, i. e marginal cost may be equal to zero. With constant value zero of marginal cost, the value of average cost is also constant and is equal to zero.

With zero cost of production, the monopolist has only o decide at which output, the total revenue will be maximum. And total revenue is maximum at output level at which MR is equal to zero.

Further with zero marginal cost, the condition if profit maximization i. e the equality of MC and MR can be achieved, where the latter is also equal to zero.

Revenue

The revenue of a firm is its sales receipts or money receipts from sale of a product. By selling commodity whatever money a firm receives is called revenue.

Total Revenue

It is a sum total of money receipts of a producer corresponding to a given level of output. Quantity multiplied by Price = Total Revenue

Marginal Revenue

It is change in total revenue on account of the sale of one more unit of output.

MR = TRn -TRn-1

MR = Change in TR/ Change in Q

Average Revenue

Average revenue is the per unit revenue received from sale of a commodity.

AR = TR/Q

Profits = TR- TC

TC= 0

Therefore, Profit = TR

Output

Price

P= AR

TR

(AR*Q)

MR

(TRn – TRn-1)

1

10

10

10-0= 10

2

10

20

20-10= 10

3

10

30

30-20= 10

4

10

40

40-30= 10

5

10

50

50-40= 10

Relationship Between TR, MR and AR

MR can be zero or even negative, but when price is declining as under monopoly.

TR stops increasing when MR= 0 so TR is maximum when MR= 0

TR starts declining when MR is negative.

When MR is declining, TR increases at diminishing rate.

Answer:

Advanced economies

These economies have high per capita income gives their people high standards of living. It should be noted that every high income country is not necessarily an advanced country, the country must have a strong and diversified economic structure, this means that the economy must consist of a number of diverse and varied economic activities that are well developed. Advanced economy should have a high level of gross domestic product per capita, as well as a very significant degree of industrialization.

A term used by the International Monetary Fund to describe developed countries. While there is no established numerical convention to determine whether an economy is advanced or not, advanced economies have a high level of gross domestic product per capita, as well as a very significant degree of industrialization. Investopedia explains ‘ Advanced Economies’

Another metric commonly used to identify advanced economies is the Human Development Index, which combines multiple factors to measure a country’s status. As of 2010 the IMF classified 34 nations as advanced economies. These include the United States and Canada in North America, most nations in Europe, Japan and the Asian tigers, as well as Australia and New Zealand.

Structural Change In Australian Economies

In the structure of the Australian economy, particularly over the past 50 years. The economy has been transformed from one centred on the production of primary products to an urbanised economy mainly producing services. In recent years there has also been a resurgence of the mining industry, lifting the industry’s share of investment, output and exports, and contributing to the rising share of the states of Queensland and Western Australia within the economy. Consistent with this, a number of measures suggest that the rate of structural change picked up in the late 2000s. The article also sets out some of the factors that have driven structural change over recent decades.

In the 19th century, the Australian economy was oriented towards primary production, with only a small manufacturing industry. Agriculture accounted for around one-third of output, and the share of mining surged dramatically during the booms in the 1850s and late in the century. Service industries were nonetheless also important, accounting for around half of all activity, with relatively strong demand for services generated as a result of the long distances between population centres (in the case of transportation and communications) and the relatively high income earned from agriculture and mining.

The 20th century saw the rise of manufacturing followed by the expansion of service industries. By the 1950s, the manufacturing industry’s share of total employment had risen to around 25 per cent, from 15 per cent at the turn of the century (Graph 1).

Graph 1

Graph 1: Employment by Industry

Developing Economies

A developing economy is essentially an under developed economy on path of progress and prosperity. It is an economy which is trying hard to shed off some burden of its backwardness and is making continuous progress in many countries are also known as third world countries. According to this nomenclature, the first world comprises of advanced capitalist countries also called as free market economies. The second world comprises of totalitarian community regions with no reference to their developed or the under developed nation. The third world is collective name given to the under developed nations. Non industrialized poor country that is seeking to develop its resources by industrialization comes under developing economy.

The development of a country is measured with statistical indexes such as income per capita, gross domestic product, life expectancy, the rate of literacy, et cetera. The UN has developed the Human Development Index (HDI), a compound indicator of the above statistics, to gauge the level of human development for countries where data is available.

. “ A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment.” But according to the United Nations Statistics Division. There is no established convention for the designation of “ developed” and “ developing” countries or areas in the United Nations system. The designations “ developed” and “ developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process.

Developing countries are in general countries which have not achieved a significant degree of industrialization relative to their populations, and which have, in most cases a medium to low standard of living. There is a strong correlation between low income and high population growth.

The developing economies according to the International Monetary Fund's World Economic are Afghanistan, Albania, Algeria, Bangladesh.

Emerging Economies

Many emerging markets have witnessed rapid growth and drawn much investor attention over past few years. In fact, some may say that markets such as China and India have largely emerged. Emerging economy defined as economy with low to middle per capita income. Such countries constitute approximately 80% of global population and represent 20% world's corporation.

Emerging market is defined as countries that fall in this category, varying from very big to very small are usually considered emerging because of their developments and reforms. Hence, even though China is deemed one of the world's economy power houses, it is lumped into category alongside much smaller economies with great deal less resources like Chine belong to this category.

Emerging markets are countries such as Brazil, China, India, Mexico, and Turkey that, in contrast to advanced economies, are experiencing rapid economic growth, industrialization, and modernization. Most emerging markets are characterized by a young population and a growing middle-class. 1 While emerging markets represent attractive markets and low-cost manufacturing bases, they also tend to have inadequate commercial infrastructure, evolving legal systems, and a high-risk business environment. Despite their drawbacks, emerging markets have begun to produce new global challengers, top firms that are fast becoming key contenders in world markets.

These firms pose competitive challenges to companies from the advanced economies, such as in Europe, Japan, and North America. In a recent study, The Boston Consulting Group identified the top 100 firms from emerging markets that have successfully ventured into global markets. While many of these firms are from China and India, others hail from various other countries. For example, the Mexican firm Cemex is one of the world's largest cement producers. In Russia, Lukoil has big ambitions in the global energy sector. Emerging economy is the process of moving closed economy to an open economy while building accountability within system.

What Makes Emerging Market Attractive

Economists expect these nations to continue to grow, which could further create opportunities for strong corporate profit growth, and in turn appreciation in stocks. However, one must keep in mind that investing in these nations is riskier than investing in developed countries. However, one must keep in mind that investing in these nations is riskier than investing in developed countries. As the global economy starts to shows signs of improvement, many analysts believe that emerging markets will be the place to be, and for good reason. As these nations build infrastructure, and their consumer spending increases, emerging economies often expand faster than their developed counterparts. In 2008, the gross domestic product of both China and Brazil grew more than 7% compared with just 1. 1% for the United States. Much of this growth was fueled by building and improving infrastructure and the relatively low amount of consumer debt found in these nations, which enabled them to expand faster than their developed counterparts.

Most emerging economies suffer from unstable political, legal and financial systems, volatile currencies and liquidity issues. In order to help deal with these risks, having an exit strategy is helpful, especially one that triggers price levels at which an uptrend could come to an end.