PART 2:
DEFINITIONS, BASICS AND ELEMENTARIES

2.1 MARKET DEMAND PRINCIPLES

Participants of the Economic Processes

Economic processes have three main participants: households, enterprises and government. All are bound by the market. The first two are economic entities. Market buyers represented by the households, but the sellers - by enterprises (enterprises employees as individuals are also the consumers of households).

Enterprises producing goods and services make decisions independently, and through disposal of production factors (purchased, hired, belonged etc) can make the maximal profit.

Households that own these factors of production, return them for reward to enterprises or state, for to optimally satisfy its needs with these incomes.

The state at all different levels of government institutions, which have a political and legal as well as economic power to control the market and other economic process participants to achieve the objectives of the public primarily through economic rather than administrative levers.

In a market economy the households are considered consumers (Figure 2.1.1). German historian Barbara Seel (64) offers the following explanation of the household:

\[ \textit{benefit source + benefit utilization = the unity that provides the needs} \]

**Figure 2.1.1: Explanation of the household**

*Source: Seel, B. (1964)*

It shows that households do not produce benefits, they only consuming them. Households are divided into two broad categories:

- private households,
- public households.

Private households are both an individual and a group of people (family) that share a common housekeeping, that is, common consumption. Private households can belong to an enterprise.

Public households' representatives also do not produce anything, but only consume. Also, many public households may be enterprises that produce goods or provide services. Manufacturers are these enterprises, but not their owners, such as the state, which, as the household represent the government, including the various levels of local government. Households have different sources of income:

- private households (income for their production factors);
- non-governmental organizations (donations);
- government (taxes and department of state enterprises);
- parties (membership fees and donations);
- charitable funds (donations);
- churches (donations and gifts, in some countries the church tax);
- trade unions (membership fees);
- NGOs (donations, special funds financing, etc.);
- scientific institutions (the state budget, however, science research institutions can often to ensure themselves financially by performance of contract works for their customers).

Characteristic features of enterprises are:

- operating goal to make profit, to reduce production costs of goods and services;
- to offer goods and services;
- to require production factors.
Characteristic features of all kinds of households are:

- to require consumer goods and services;
- supply of production factors (more opportunities have private households (mainly with work), the public, for example, by offering temporarily free funds).

Households and enterprises are closely linked. Households need benefits to satisfy their needs. But to obtain these benefits they need the corresponding income. No one usually give it for free. In its turn, enterprises that produce goods and services for households need profit. Simplified households and enterprises correlation is shown in Figure 2.1.2.

![Figure 2.1.2: The simplified model of circulation of the national economy](source: author's construction)

Private household, in order to gain income, offers to enterprises it own and free production factors. Enterprises which produce for these households the required goods and make the required services use the suggested factors of production and make out the respective payments. Households can buy the necessary benefits (buy goods and receive services, making payments to enterprises. The two circles, as we can see on Figure 2.1.2, are completed, and both partners are satisfied. Of course, the flow of payments, which goes in opposite directions is not same, that is, payments for goods and services are for profit share larger than the payments for the factors of production.

In real life, this model is not so simple. All four flows pass through the respective markets, in the economic chain involved banks, the government, takes place an export and import operations. A single individual in a specific place at a specific time may have different roles. For example:

- Craftsman can have shoe repair shop, which can be craft business or individual producer enterprise (see Figure 2.1.1). When the craftsman, somewhere or even in his house, of course, in a separate room, execute the order, he produce and represent his producer-enterprise. When this craftsman in work clothes makes lunch in the kitchen, etc., he is a consumer, representing the household and do not produce anything. This craftsman never can represent the household (consumer) and enterprise (manufacturers) simultaneously.

- Manager or owner of a big business can relax at home enjoying family warmth and rest. At this time, he is a consumer and represents the household. However, he can receive a call from the company and resolve labor issues. In this situation he will be head of the enterprise and represent producers. This cup of coffee sipped at home on the phone by the manager or owner dealing with labor issues, will be included in household consumption, but if he have the same cup of coffee in his office, it will be included in the cost of production (for example as presentation expenses).

**DEMAND**

**Demand formation**

The man as an important representative of households is characterized by desire to consume. Of course, it is not stubborn satisfaction of whims (I want and that's it!), but to
consume in order to meet own needs. The needs satisfaction have the following stages: desire → needs → demand (Figure 2.1.3). Desires are located on the lowest step.

![Figure 2.1.3: Demand origin](image)

Source: author's construction

**Desire** of any goods may begin with the fact that a person likes it. Initially, this person even does not represent how this product will suit to her. Then she begins to imagine this product, for example the shoes, and how she dances with prince of her dreams, but the place and time are uncertain. For the colder time, she, maybe need not exactly these shoes, however some shoes are necessary. Consequently, we have come to needs. Desires of enough-to-do society may form associations (involuntary relationship between an individual's expectations and reality), with which it is possible to manipulate, such as clothing, interior items, entertainment items, etc., with a number of marketing tools, etc.

**Needs** are a natural, social or spiritual factors, which operation require the presence of the organism, personality, social group or society as a whole.

If needs accompanied by purchasing power, then we can talk about demand. Of course, the consumer buys enough qualitative and valuable goods.

**Demand** is a set of goods or services that consumers want to buy and can pay the market price for it in order to meet their needs.

### Needs

In the core of human economic activity lies the endeavour to satisfy one's needs. Human needs may be described as subjective and objective. Needs of the lower order are more objective, but the higher is the order of needs the more subjective they become.

Private household needs can be divided according to several criteria. If we consider the needs of a household as an aggregate of needs based on basic needs, then to become demands (wants to be satisfied), the household needs may be divided into:

- **primary needs** (indirect) such as income (yield),
- **secondary needs** (direct) all the rest.

Private households obtain income through the available factors of production. They offer work for which they receive payment. The higher the payment, the more secondary needs (wants) can be satisfied. Such an approach to the theory of job payment was described already in the works of F. W. Taylor (1856-1915). In his opinion the more workers produced, the more they earned. Through satisfaction of primary needs (income generation) private households can satisfy their immediate needs, e.g. to buy clothes. Thus, nowadays wages are used:

- to satisfy physiological, self-preservation, social recognition and self-actualization needs (see Figure 2.1.1); the level of these needs satisfaction is affected by the standard of living, employment and other factors;
- to provide payment for labour corresponding to the state of labor market and economic situation in the country;
- to serve as monetary consideration for labour accepted in a particular company and generally corresponding to standards accepted in a particular sector of industry (according to criteria, categories, levels);
- to provide monetary consideration for labour according to the employee's contribution and the value system of a company.

If we focus our attention on the immediate needs and separate them from the aggregate
of needs, then all human needs can be divided according to their features. In the best way this is shown in Abraham H. Maslow's (1908-1970) hierarchy of needs (see Figure 2.1.1), who based his theory on the following three principles:

- the principle of the hierarchy of needs (needs arranged in order of importance) in 5 levels;
- the principle deficiency of needs (the process is unlimited);
- the principle of progression (human behavior is motivated by unsatisfied needs, as soon as one need is satisfied, another need may arise and ask for satisfaction, and so on indefinitely).

American psychologist A. Maslow's theory is one of many theories of needs. Graphically his hierarchy of needs (1943) is usually presented in the form of a pyramid (Figure 2.1.4). The bottom of the pyramid is formed by basic or "pressing needs", i.e. the needs that put a human being under great pressure so important they are to be satisfied, but the higher to the top of the pyramid the less pressure a human being feels in the pursuit of needs satisfaction.

1. **Physiological needs** among others include human needs in clothing and food, according to a minimum wage and tolerable working conditions (other physiological needs are beyond the scope of this course).

2. **Self-preservation needs** and the faith in the future are the needs for safety, protection and stability, which may be also understood as insurance, a good job with a higher than a minimal wage and better retirement prospects. Physiological needs and self-preservation needs fall in the category of basic needs.

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![Diagram of Maslow's Hierarchy of Needs](image)

**Figure 2.1.4: Abraham Maslow's hierarchy of needs**

*Source: Wahba and Bridgewater L.G. (1976)*

3. **Social needs** are the needs to belong to social environment, to be socially accepted and have good cooperative relations with colleagues.

4. **Needs for recognition** are the needs to be respected and valued, to reach a certain status, etc.

5. **Self-actualization needs** are the needs for self-fulfilment and achieving one's full potential.

Divisions between the categories of needs in the graphic presentation of A.H. Maslow's hierarchical system of needs in Figure 2.1.4 are shown as straight lines. However, in real life, these divisions may be not as clearly expressed as the needs of an individual may embrace needs from various levels, especially if these needs are directed from the bottom to the top of the pyramid. In this case we can observe the phenomenon called "the principle of twined fingers", i.e. the individual's needs as a whole may be at the second level yet, but some of the needs are already from the higher levels. The opposite order is also possible (see Figure 2.1.5). For this reason, when a specific market situation analysis is carried out, these peculiarities should be taken into account.
Figure 2.1.5: Principle of twined fingers in the context of Maslow's hierarchy of need

Source: created by author

However, A.H. Maslow's theory of needs was criticized for certain limitations by T.R. Mitchell, M.A. Wahba, and L.G. Bridgewell among others. Experiments have shown that it was not always the needs satisfaction at one level automatically excited the needs at another level. Consequently, a strong hierarchical structure was disrupted (Wahba and Bridgewell, 1976). A. Maslow was also criticized for not taking into account personal individual differences. Therefore it deemed necessary to develop his hierarchy of needs further by focusing on personal experience of separate individuals, and emphasizing people's individual features (Lawler, 1973). Different individuals like different things, have different needs and preferences in regard to remuneration systems (Mitchell, 1978). In order to avoid these limitations A. Maslow's theory of needs was complemented with other theories.

However, in the author's opinion, A.H. Maslow's theory does take into account the diversity of individual needs if only in a generalized sense. Higher needs belong to psychological (intangible) factors.

If we divide A.H. Maslow's pyramid into two parts (one subsuming the needs of the 1st and 2nd levels, and the second are the needs of the 3rd, 4th and 5th levels), then such classification of needs will be comparable to Frederick Herzberg's two factor theory, according to which needs are divided into:

- hygiene factors, which F. Herzberg understood not only as preventive needs to maintain health and prevent disease, i.e. to ensure physical health, but also as factors that help to maintain human capacity for work);
- motivational factors or motivators.

According to F. Herzberg (1959, 1968), hygiene needs are those that need to be satisfied in order to maintain the human capacity for work and so they are work-related, but the motivational needs are related to the nature of work and have a positive effect on the employee's job satisfaction. Motivational factors include the need for creative growth, for building a career, for success achievement, etc. The hygiene factors include wages, working conditions, etc. The ERG theory of Clayton Alderfer (1972) distinguishes the following three categories of human needs:

- the needs for existence → physiological needs,
- the needs for relatedness → contacts, security,
- the needs for growth → self-actualization, self-expression.

David K. McClelland (1970) identifies the following categories of needs:

- the need for achievement → praise, merit recognition,
- the need for affiliation → belonging to a social group, cooperation,
- the need for power → administrative authority and influence.

Alderfer's ERG and D.K. McClelland's theories share much of common ground. Many scientists were influenced by the views of Friedrich Benedikt Wilhelm von Hermann (1795-1868), a German economist, mathematician and statistician. Eugen Böhm Ritter von Bawerk (1851-1914), the Austrian school representative, also wrote on the hierarchy of needs.
He classified needs as:
1) needs for physical survival,
2) needs for maintaining health,
3) needs for improving health,
4) higher (luxury) needs,
5) communication needs.

According to Böhm Ritter von Bawerk physical survival was the primary need, which was also objective in nature. The other four were ranked subjectively, and one could arrange those secondary needs at one's own discretion.

Maslow's theory of needs was strictly hierarchical. Alderfer's theory was not strictly hierarchical, but may still be classified as hierarchical one. Unlike Maslow and Alderfer's theories, in McCleland's theory the needs were not arranged hierarchically, although they were interconnected and influenced each other, which influence should be taken into account in specific situations.

The latest generation of needs researchers includes Pirkko Anttila (1993), Andrzej Niezabitowski and Victor Papanek (1973) among others. P. Anttila analyzed a number of studies on the needs. As a result, he divided all human needs into four categories based on different criteria:

1. Needs according to the criterion of **importance** may be ranked in a certain order on the basis of biological and social factors (similar to F Herzberg's theory). Human psychological and physiological primary needs are major biological dimensions, and it is believed that all other needs are based on socio-cultural phenomena. For example, living accommodation is necessary to meet the needs for physical warmth, safety, hygienic and sanitary conditions and light. When these basic needs are satisfied, a person seeks to satisfy socio-cultural needs, such as needs for aesthetical values, privacy, social contacts, etc.

2. Needs according to the **human interaction and criteria of choice**. This approach is based on psychological thought focusing on needs, drives and choice (e.g. behaviorist theory developed by American psychologist John B. Watson in the early 20th century). Needs analysis is a foundation of any market research, and needs are related to the experience of excitement or dissatisfaction, delight and disgust. Since it is very difficult to explore the needs as so many different criteria have to be taken into account, this should be assisted by the study of consumer preferences and behavior.

3. The criterion of a **hierarchy of needs**. In this case, different needs have different meanings. A. Maslow's hierarchy of needs is the most popular in this regard.

4. Needs according to the criterion of **influence**. P. Anttila (Anttila, 1993) assumes, and A. Niezabitowskij supports, that needs are drives that motivate people to become socially and culturally active.

A. Niezabitowski believes that an individual has needs that may be divided in 4 groups, and communication is not affected by time and culture in which one lives: there is the need for safety, the need for response at emotional level, the need for social acceptance, and the need for acquisition of new experience. Based on these 4 groups A. Niezabitowski has developed a non-hierarchical system of needs according to the following categories:

- **The need for safety** is aimed at avoidance of internal and external threats;
- **The need for comfort** is aimed at facilitation of other needs satisfaction, such as unencumbered acquisition of consumer goods (regarding living accommodation to have it sufficiently warm, light, soundproof, etc.);
- **The need for social acceptance** also covers the need for having a modern and well groomed environment, etc.;
- **The need for social contact** includes needs for social contacts with others and belonging to a social group, expressing this need, for instance, in a certain manner of dress, etc.
- **The need for action** is expressed not only in building a career, but also in engaging in sports and cultural activities, etc.;
The need for **peace and quiet** is expressed in the need for privacy in one's private live and the need for integrity, which notion also includes a stable and invariable environment;

- **The need for beauty** is associated with sensitivity to aesthetic values. In this regard, forms and relationships, colours and materials, etc. are essential, for example, the semantic content of goods.

Victor Papanek's classifies needs as (Papanek, 1973):

- **transient** (temporary) **needs**,  
- **real** (permanent) **needs**.

**Transient** needs are those that are manageable and which can be manipulated e.g. fashion. These needs receive much public attention.

**Real needs** are economic, psychological, spiritual, technological and intellectual needs. According to V. Papanek our clothing is just a costume, with the help of which the consumer plays a role. Such needs are not in the focus of public attention.

In modern society, material and non-material needs are intertwined. All the time new needs emerge mainly due to marketing and its influential instrument - advertising. Consequently, in satisfaction of some non-material needs, such as self-actualization and self-esteem, material resources may be used. Yves Bernard and Jean Claude Colli classified needs as:

- **survival needs** (primary needs), such as food, housing, etc.;
- **other needs** (secondary needs) as comfort, leisure, etc. These needs emerge when private households wish to obtain a higher standard of living (Bernard and Colli, 1994).

The boundaries between these categories of needs mainly depend on the standard of living in a particular country. Rising living standards stimulate growing needs and this turns the differentiation of needs into important factor of economic activity revival. Needs may be classified according to the degrees of satisfaction:

- **minimal level**,
- **basic level**,
- **higher** (luxury needs satisfaction) **level**.

Of course, the boundaries between these levels are relative and the division is conditional. Over time, with the increase in living standards, these levels may regroup, for example, the car was once a luxury item, but today many classes of cars are within the normal level of needs; similarly with bicycles.

In the quantitative aspect needs are multifarious, but with regard to their intensity, the situation is reversed. Each individual has their own perception of the satisfaction of a need and this depends on the nature of a need. Thus, when the level of satisfaction increases, the intensity of a need decreases.

Needs may complement each other, and needs may also compete with each other. This raises the problem of intersubstitutability of needs and their hierarchy, which can be solved by economic development organization. The optimal hierarchy of needs forms in a market economy as a result of the individual's free choice related to the market driven individual income distribution. In the Third World countries, where the standard of living is lower, the satisfaction of primary needs is a priority.

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**Value**

When *value* is understood as an economic category, it may be described in terms of usable or unusable. Values have many classifications. Erik Allardt (1995) classified values as:

- **learned values**,  
- **general values**,  
- **permanent values**,  
- **goal-related values**,  
- **choice based values**.

Understanding of the concept of value helps to make choice. Some values, learnt from
the environment, may be common (religion, etc.) or permanent (honesty, etc.). The individuals’ choices are influenced by their set of values consciously and unconsciously. At the same time, the opposite relationship is also true when making choices creates values. An individual’s choice is influenced by his set of values both in a conscious and unconscious way. However, there is also the opposite connection - situations that create choices, form values.

Charles W. Morris (Schumann, 1992) developed his system of values based on three dimensions related to different cultures:

- **Dionysian** dimension expressed in the desire to enjoy life and free oneself from the need to create pressure;
- **Promethean** dimension expressed in ambition to have influence on the world and change the established order;
- **Buddhistical** dimension manifested as a tendency to concentrate oneself on oneself and to repress one’s desires.

### Goods

In the context of this work good is understood as economic good. **Good** is everything used directly and indirectly to satisfy certain human wants.

For merchandise, services, events, fruits of labour (work products), rights, in short: things or effects to become goods, the following conditions should be met:

- there should be the need in them;
- they should have features that make them suitable for a specific want satisfaction;
- consumers should be aware of the link between the wants they wish to satisfy and the features of a thing they want to acquire;
- there should be opportunities that will allow managing and handling the acquired goods.

Things are not goods yet, or are no longer goods, if at least one of the above mentioned conditions is not met.

Goods can be classified according to several criteria. According to the criterion of origin, i.e. whether the thing or effect is a product of human activity or not, goods may be:

- **free goods,**
- **economic goods.**

**Free goods** are the so called nature’s bounty, which are obtainable without any effort or return value in unlimited quantities (e.g. air, daylight, solar energy, etc.). In most cases, such goods are not in anybody’s possession, so they are also known as universal goods. With the growth of population, many such earlier free goods turned into economic goods, for instance, land. Even in the late 19th century, anyone willing could get it for free in uninhabited or sparsely populated areas. In certain places, such good as water in the desert, which elsewhere is universally free, is an expensive good because it exists in very limited quantities. Due to environmental pollution water and air are no longer free goods, even in places where recently they were still free goods, e.g. in the industrial zones, especially where there are poor natural air exchange conditions, such as in hollows and closed depressions. Water in the water supply networks for residential environment is also economic good because its provision is maintained through economic activity.

Not all things in the world may become goods, as they may be useless materials for satisfaction of people’s needs, such as barren rocks, desert sand and icebergs. With time, some of them may become goods.

For instance, through the development of certain technologies, it may become possible to transport icebergs to arid coasts and use them for provision of high-quality drinking water, of course, if in total such water extraction technology will become sufficiently commercially cheap and will correspond to the consumers’ purchasing power.

**Economic goods** are goods produced by way of use of other goods or labour skills (labour is also a kind of goods). They exist in limited quantities as much as produced.
According to the criteria of utilizing, goods are divided into:

- **consumer goods,**
- **producer goods.**

**Consumer goods** are those that can directly satisfy customer needs, such as food products, clothing, etc. *Carl Menger* (1840-1921) called them the first or lowest order goods. They are also immediate goods.

**Producer goods (intermediate goods)** are various means of production, materials, semi-finished products, tools, technology, industrial buildings and structures, land, etc. They are used for manufacturing the consumer goods and for this reason they are intermediate goods. Producer goods can be divided according to different degrees: depending on how far they stand from transformation into consumer goods they are classified as goods of 1, 2, 3, etc. order.

The need in goods is satisfied in the production process. Depending on the period during which goods may be used they are divided into:

- **non-durable or soft goods,**
- **durable or hard goods,**
- **consumable goods,**
- **inconsumable goods.**

Durable and non-durable goods are consumable goods. Such consumer goods as food, clothes and other merchandise, and such producer goods as input materials, technology, fuel, etc. are **consumable goods.**

Land plots are **inconsumable goods,** their value can vary during the period of usage, but they never depreciate. According to the external form, goods may be divided into:

- **objects** (corporeal things),
- **personal services** (used for indirect satisfaction of wants),
- **legal relationships.**

Human working abilities, expertise and ideas are also considered to be goods. Legal and economic relations are also goods, e.g. customer base, goodwill of the company (image), patents, copyrights, inheritance rights, etc. Goods concerning legal relationship do not include corporeal goods or material goods, but may include, for example, one's word of honour, civil condition, etc. According to the nature of goods they may be divided into:

- articles, they have material, physical form;
- services, they have non-material, incorporeal form.

According to the fields of utilization goods may be divided into:

- **material (tangible) goods,**
- **non-material (intangible) goods.**

**Material (tangible) goods** are usable material things and things related to their management, application and benefit obtaining rights.

**Non material (intangible) goods** are those that affect the individual’s abilities to develop. Intangible goods are divided into:

- internal goods,
- external goods.

**Internal intangible goods** are personal characteristics, human faculties (for example, business acumen, professional excellence, etc.).

**External intangible goods** are reputation, human social connections (friends, neighbours, relatives, enemies, etc.). Reputation is not necessarily dependent on the individual, but it is certainly dependent on the surrounding people beliefs about the person.

According to the criterion of divisibility goods may be:

- individual consumption goods, which may be divided into sufficiently small units and sold to individual consumers;
- public goods, which are indivisible and cannot be sold to individual consumers.
According to accessibility, goods can be divided into:
- further non-transferable goods such as human abilities, trust-based business communications, favourable climatic conditions, air, privileges; etc.
- further transferable goods, which are all other goods.

According to customer's attitude goods may be divided into:
- neutral goods, which are goods against which a consumer does not feel any particular dislike or liking.
- demerit goods, e.g. cigarettes for a non-smoker, or for the users of other tobacco products, such as chewing or snuffing tobacco.
- merit goods, which are goods liked and wanted by substantially all customers (these are the majority of goods).

According to ownership goods may be divided into:
- Private personal goods, which are goods for personal usage; they belong to and may be consumed by one individual only, they cannot be consumed by several individuals at one and the same time, e.g. food, clothing, toiletries, etc.
- Individual public goods are goods that can be used simultaneously by several individuals or even groups of individuals, although the number of users may be limited to some extent, e.g. passengers of various public transport vehicles, the audience of cultural events, etc.
- Collective public goods are goods used by the unlimited number of consumers, e.g. natural light and street lighting, public parks, roads, etc.). Such goods are quite often for free.

\[
\begin{align*}
\text{Goods are} & \quad \begin{cases} 
\text{material external} \\
\text{Personal} \\
\text{External} \\
\text{Internal} \\
\text{transferrable} \\
\text{non-transferrable} \\
\text{nontransferrable}
\end{cases}
\end{align*}
\]

**Figure 2.1.6: Classification of goods according to A. Marshall**

*Source: Marshall (1993)*

Taking into account A. Marshall (1993) theory of wealth, goods can be represented in the diagram of Figure 2.1.6. The benchmark for goods evaluation is their value or utility.

**Demand function**

The demand we usually understand as household demand. Such a view has a logical justification - absolutely the greatest amount of demands consumed by households. However, part of the demands goes to households indirectly - only after the production process, when is produced the final product consumed by households.

The demand for the final product that can be consumed by households is called direct demand. Demand for goods and services, which are involved in the production process (raw materials, materials, capital goods, etc.) is an indirect demand.

Often, between direct and indirect demand for goods there is no dividing line. For example, sugar can be a household direct product demand, as well as material for manufacturers in the food industry.

However, the direct demand for goods usually cannot exist without an indirect demand for goods. There are exceptions, such as the nature gifts (rough mushrooms and berries, etc.). In this respect, estimating the demand, we can see that the benefit of indirect demand of goods is reflected to a direct demand. In that sense, there is the combined demand, which covers direct and indirect demand and reflected in immediate demand.

Any goods or a service request is influenced by many factors, and in analytical way it shows such a request function:
\[ Q_n^d = \sum f(x_1, x_2, x_3, \ldots, x_{n-1}, x_n), \] (2.1.1)

where \( Q_n^d \) is demand and \( f(x_1) - f(x_n) \) are factors influencing demand.

![Diagram of factors influencing demand](image)

**Figure 2.1.7: The factors influencing demand**

*Source: composed by the author*

How the different factors and their groups impact on demand, shown in Figure 2.1.7. Direction of the factors that are drawn in this image shows the demand direction. This direction has been accepted conditionally. In practice the factors axis may also be the opposite, i.e. one that reduces the demand. One household demand for goods is an **individual demand.** Household group demand is the **market demand.** It consists of the individual (partial) demand amount.

The demand based on a particular factor can be shown in tabular form (see table 2.1), graphically (in graphic form) (see figure 2.1.8) and analytically (in the form of mathematical expressions) (see formula 2.1), with the ceteris paribus principle. **Ceteris paribus** is the assumption, according to which one influencing value is considered to be a variable, while the other values (conditions) are constant.

<table>
<thead>
<tr>
<th>Demand dependence on price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price ( p )</td>
</tr>
<tr>
<td>Volume ( Q_d )</td>
</tr>
</tbody>
</table>

Economic processes in graphic form assume that monetary factors are represented on the vertical axis, while volume factors - on the horizontal axis.

In this example, as shown in Figure 2.1.8 and 2.1.3, demand function is linear. Demand function, as well as other relevant economic relationships may also be at any curve which is a sufficiently accurate and reliable capture the subjects of economic process. In this case, the demand functions type identifying the specific goods in a specific place (market) at a specific time. In case of hangers in the goods demand time, there will be already a different demand function.

As illustrative material, which could show a general request or some other economic process function, recently adopted a linear relationship, that is, direct. This assumption makes it easy to display this relationship and, if necessary, additional construction. So we will not be surprised if in some economic book would be written about the economic curve, but it would be displayed in a straight line.

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The Y (vertical) axis shows the price of goods, but the X (horizontal) axis shows the volume of demand.

![Graph showing demand depending on price]

**Figure 2.1.8: Demand, depending on price**

*Source: compiled by author*

**Household demand classification**

Taking into account the various factors that affect private household demand, it can be subdivided (Figure 2.1.9).

Consumer choice depends not only on rational considerations, how it happens in absolute majority of cases, but also on irrational considerations, such as whims case.

American economist Harvey Leibenstein divided consumers (private households) demand into two broad categories:

- functional demand,
- non-functional demand.

Complementing these two large groups with additional information we obtain in Figure 2.1.9.

**Functional demand** is part of the demand, that is stipulated by benefits of consume properties.

**Non-functional demand** is part of the demand, which is not linked to the consumption of beneficial properties.

**Speculative demand** is formed when there are high inflation expectations.

**Non-rational demand** - is the unplanned demand, and usually it not has a rational consumer use.

![Diagram of household demand classification]

*Source: created by author*

**REFERENCES**