

Demand Function

A demand function is a relationship between the amounts purchased of a good or service by consumers and independent variables on which that demand varies. A demand function explains and describes demand. It almost always includes the price of the good or service as one of the independent variables.

A common demand function looks something like this:

$$Q_d = f(P, I, P_r)$$

$Q_d =$ *Quantity demanded*
 $P =$ *Price*
 $I =$ *Income*
 $P_r =$ *Price of competing goods*

This demand function says that the quantity demanded is a function of the price of the good or service, the income level of potential customers and the price of competing goods.

A typical demand function could be modeled with the following equation:

$$Q_d = a + bP + cI + dP_r$$

The small letters b, c, and d are called demand coefficients. They represent by how much the variable Q_d will change for each change unit change of a variable.