

THE THEORY OF DEMAND: CRITICAL ANALYSIS

Goal of the article: on the basis of critical analysis to specify some positions the theory of demand, which modern economists are interpreting incorrectly.

One of conditions of successful operating of market economy is development of scientific theory of market. The major element of this theory is a theory of demand.

Ukraine comparatively recently had passed to the market relations, therefore the market theory in Ukraine is in the stage of forming. Some positions of this theory, in particular, the theory of demand are not deeply comprehended enough by some economists and as a result interpreted incorrectly. A critical analysis and specification of these positions are very actual and necessary.

Demand is a solvent need. Such or very near in sense definition of demand is given almost in all textbooks, monographs and manuals, and it does not cause objections.

The necessity of man finds expression in his desires, interests and aspirations. Economic necessities can be satisfied through products of labor: by consuming these products, which in the conditions of market economy, as a rule, are commodities or paid services. A desire to buy these commodities or services is the first side of demand. The second side of demand is possibility of such purchase, i.e. presence of money for realization of such purchase. Thus, demand is a not purchase itself, it is a only desire and possibility of this purchase.

A purchase of commodity by customer is a sale of this commodity by seller at the same time. The volume of sales can coincide and not coincide with the volume of demand. For example, if we want to buy 100 kg of potatoes and its price at the market is 5 hrn. for a kg, then we must have 500 hrn. If we had only 400 hrn., we will be able to buy only 80 kg of potatoes at this price. Although our requirement in potatoes 100 kg, our demand on potato will be only 80 kg at this price or 400 hrn. We can satisfy our requirement in potatoes only on 80%. For satisfying fully our needs in potatoes we must either get an additional profit in 100 hrn. or at the same size of profit, which we will set aside for purchase, prices must decrease on other commodities which we were going to buy and then all saved money we can use for purchase of potatoes, or potatoes' price must decrease from 5 hrn. for kg to 4 hrn. for kg. In this case we will be able to buy 100 kg of potatoes in 4 hrn. for kg on 400 hrn. For determination of volume of demand in natural form (100 kg of potatoes in our example) does not matter what factor increased our possibility of purchase: receiving of

additional profit or decreasing price on this commodity, or decreasing price on complementary commodities.

Such understanding of the volume of demand does not conflict with essence of demand as a solvent necessity. But demand as a solvent necessity has, as we marked before, two sides: natural and monetary. We think that it is more expedient to divide concept of demand into two categories: demand in natural form (as expression of necessity) and demand in monetary form (as expression of payment). Absence of such division conduces to the one-sided understanding of demand, to confusion then it is impossible to describe the change of volume of demand exactly. For example, we will take the same commodity — potatoes. Suppose that the annual family necessity in potatoes in 2009 was 200 kg Family spend for purchase of 200 kg of potatoes 800 hrn. (4 hrn. for a kg). In 2010 because of the change of family members (a son went to army) annual necessity in potatoes is 150 kg. Because of increased price for 1 kg of potatoes from 4th to 6 hrn. family spend for purchase 900 hrn. How to define changes in the annual volume of demand of family on potatoes? If to examine the volume of demand only from position of payment, then we must give answer: the volume of demand of family on potatoes in 2010 increased from 800 hrn. to 900 hrn. If to examine the volume of demand in natural form, then we must give such answer: the annual volume of demand of family on potatoes in 2010 to compare with 2009 reduced on 50 kg. If not to divide the volume of demand into demand in natural form and demand in monetary form, then we will not be able to give a monosemantic right answer, because different parties of demand changed in opposite directions.

It is written in a textbook on the bases of economic theory edited by V. D. Kamaev: "...A price change changes only the volume of sales of commodities, but not demand" [1, p. 64].

The similar point of view is hold by many modern economists who analyzing demand, such as Bazilevich V. D., Buryk P. Y., Vatamanyuk Z. G., Grontovskaya E., Gupalo O. G., Dzyubik C. D., Didenko I. P., Kondrachova V. A., Kosik A. F., Melnikova O. P., Melnikova V. I., Panchishin S. V., Pivak O. S., Stasyuk I. V., Steblii I., Schuchno A. A., Yaremenko V. and many other in Ukraine; Beloucova I. E., Bublikova V. V., Bulatov A. S., Nikolaeva I. P., Nosova S. S., Selischev A. S., Taranuha Y. V. and many other in Russian Federation.

Here that is written in a textbook on the economic theory edited by I. P. Nokolaeva : "Thus, the action of

price factor causes the change of size of demand, that is visible on a demand curve. The action of non-price factors causes a change in demand, but expressed by shifting of demand curve to the right, if demand increases, and to the left, if demand decreases" [2, p. 64].

In the same textbook, but in later edition, authors mark: "These two concepts — a change of volume of demand and change of demand — very meaningful for conception of both demand and supply. They must be clearly distinguished" [3, p. 64].

Speaking about necessity to distinguish the change of size of demand and change of demand the indicated authors and all other economists, interested in the problem of demand, these distinctions explain only by one: shift or not shift at these changes demand curve on graph. If at these changes demand curve on graph is not shifted it means that the size of demand changes only, and if demand curve is shifted, then demand changes.

Thus, all these economists in explanation of distinctions between these changes come running to the same argumentation, not thinking over logic of this argumentation.

According to dialectical logic any quantitative changes of one or another phenomenon are changes of the phenomenon itself. The law of transition of quantitative changes into qualitative says that quantitative changes take place without change of essence of this phenomenon while will not get a certain limit. A transition out of this limit causes change of essence of this phenomenon, his conversion into another phenomenon.

Let's take for an example such vessel as a small mug with cubic measure 100 milliliters. If we will increase the size of this vessel without changes of its proportions and forms to 300 milliliters, then this small mug will become an ordinary mug. If we will increase the size of this vessel to 500 milliliters and will change its form, which was made from grey steel, and cover it by white enamel, it will mean not only the quantitative but also some qualitative changes of vessel, but his essence will not change. It will remain a mug, but more large. But if we will increase the size of this vessel to 10 l, it will transform from a mug into tank. This vessel already will not be named a mug. It will be named a tank. The function of this vessel will change too. It will not be a vessel for drink, but a vessel for keeping water or some other liquid. The change of first-order essence will happen. From a mug a vessel will transform into a tank. One type of vessel will transform into other type of vessel with the change of its functional setting, but its deeper essence will remain unchanging. It is used as a vessel. If we will increase the sizes of this vessel to 100 or even 200 l, it will change the essence, essence of 2nd order, by transforming from a tank into a barrel. But it still be used as a vessel, its essence of 3rd order will be the same. Its deeper essence, i.e. essence of 3rd order, will change, then we recast it on original armor for a horse, i.e. on facility of defense of horse from darts, arrows and copies. Then it would be not a vessel, but element of protective

equipment for horse in the Middle Ages. But the essence of 3rd order changed only, essence of 4th order be the same. A protective equipment for horse will be handmade thing, not a product of nature, but a product of man labor, but not a commodity probably. This object would continue be the product of labor. Its essence as a product of labor took place, when it was a mug, a tank and a barrel, and when it transformed into equipment for horse.

But main in our argumentation about the quantitative changes of any phenomenon, that these quantitative changes are change of the phenomenon itself in the limits of the same essence and at changing of essence.

If we using our previous reasoning about the quantitative changes of the phenomenon will back to consideration of quantitative changes of demand, we must mark that any changes of size of demand mean the change of demand. So artificial dividing of these changes into the changes of size of demand and change of demand contradict the dialectical method of research and is unfoundedness. If we examine demand as payment necessity, then its size will be determined by necessity and solvent, regardless of factors that change the size of this payment — by changing of commodity's price or changing of customer's profit. The division of influence on the size of demand of price and non-price factors changes nothing. The size of demand will increase in a case of decreasing commodity's price (it is essence of the law of demand) and in a case when the profit of customer increases. According to dialectics any change of size of demand means the change of demand. Economists confirm that the change of size of demand takes place in a change of commodity's price and in a change of non-price factors, but in a first case demand curve on graph didn't shift and in a second — shifted. A change in demand (or change of demand) takes place only in a case when a curve on graph is shifted. If demand curve on graph does not shift then the change of demand does not take place. No other arguments for explanation of these distinctions are given.

Because a change of demand contacts only with shifting of demand curve on graph, we must notice that at the change of price demand curve can substantially change according to elasticity of demand at price and type of commodity.

If it is absolutely inelastic demand, then practically any changes of price will not influence on the size of demand on this commodity and demand curve will be vertical. If it is absolutely elastic demand, then demand curve on this commodity will be horizontal [4, p. 46]. If we will describe an demand for the Griffen's commodity or for Veblen's commodity on graph then the demand curve will have positive inclination that conflicts with the law of demand [5, p. 48, 51, 52]. This very substantial change of the demand curve on graph related to the change of price economists do not consider as a reflection of change in demand, while displacement of the demand curve under non-price factors is considered as a feature of change of demand. Where is logic?

We must define criteria of change of demand for finding out changes that is necessary to consider as changes of demand. From our point of view such criteria are: change of essence of demand and change of size of demand.

The change of essence of demand takes place with the change of type of commodity. Demand on a potatoes is one type of demand, demand on bicycles is another type of demand. The change of type of demand means the change of essence of demand (essence of 1st order). Individual and combined demand is also have different essence. However their deeper essence is identical: they are demand both, not another phenomenon as weather, for example.

The second criterion of change of demand is a change of its size (volume). As we marked before any quantitative change of one or another phenomenon, including demand, means the change of the phenomenon. Consequently, the change of size or volume of demand means the change of demand. Reasons that can change size of demand could not be used as a criterion, i. e. feature that signs changes of demand. For example, if to send the ray of light on a post, a post will throw shadow. A post will serve as reason of arising shade up, however it can be considered the sign of shade. If to turn light off, shade will not be, in spite of presence of post. It be the same for demand. It is impossible to consider as a sign of change of demand reasons that can change the size of demand, i.e. neither the change of commodity's price nor change of non-price factors can serve as the sign of change of demand. For example, if family profit intended for the purchase of potatoes is 500 hrn., at potatoes' price in 5 hrn. for a kg, now increased on 100 hrn. and got 600 hrn., but at the same time the potatoes' price increased from 5 to 6 hrn. for kg, solvent of family will not change, i. e. demand will be the same — 100 kg. Because demand is a solvent necessity, the signs of change of demand can serve as change of necessity and payment only in their interrelation. Even change of each of these parties of demand in tearing away from each other cannot serve as the signs of change of demand. For example, if a necessity grew and solvent didn't change demand will stay the same. If solvent will grow outside a necessity, demand will stay the same too. Solvent surplus does not change the size of demand. For example, if annual demand of family on potatoes is 200 kg at a price 5 hrn. for kg and family has a profit in 500 hrn. then family can purchase only 100 kg. If family solvent will grow to 1000 hrn. demand of family will be fully satisfied. Family will be able to purchase 200 kg of potatoes, but if family solvent will grow to 1500 hrn. demand of family will be on the level of 1000 hrn. family will not buy potatoes over 200 kg because the purchase of commodity over a necessity conflicts with good sense.

Thus, differentiation of concepts a change of volume of demand and change of demand are a devised problem that conflict with the dialectical method of thought. Baseless, conflicting with dialectics are

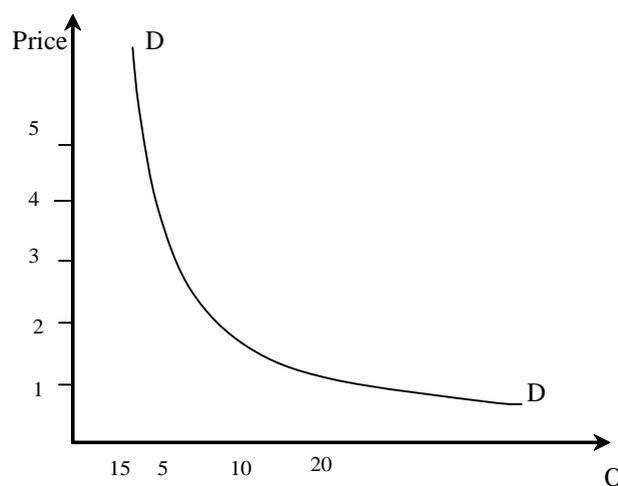


Fig. 1. Demand curve

explanations of changes of demand by shifting of demand curve on the graph of demand because change of volume of demand is a sign of change of demand, but not reasons that change volume of demand (Fig. 1).

The next aspect of problem of demand is configuration of demand curve. In a textbook "Economy" Guravleva is described next picture:

It is written below: "On graph the curve DD goes down from top to bottom. It caused by the law of falling demand" [6, p. 95 — 96]. And further: "This law was formulated by French mathematician Curno in the work "Research of mathematical principles of the theory of wealth". According to his formulation of law, demand on commodity makes some function of price, decreasing, as a rule. Such position does not conflict with a market" [6, p. 96]. Laughter and only.

According to the law of decreasing demand the demand curve must deviate (to distort) to the left toward axis and on graph it deviates to the right along axle. Such explanation and illustration of curve on graph will embarrass and nonplus any thinking reader.

The authors of textbook on the bases of economic theory edited by V. D. Kamaeva try to explain such situation as follows: "Decrease of demand takes place because every subsequent purchase of the same commodity or service gives consumer comparatively the less use, benefit, satisfaction... the sale of every additional commodity becomes possible only at a going down price... A declivous pulldown curve has negative inclination because describes reverse linear dependence between two variables — price and amount of sales and also going down marginal utility of every additional purchase of the same commodity that explains falling of its price" [1, p. 64].

So satiation of demand causes its decreasing, reducing and reducing of volume of sales. Decreasing of demand causes reducing commodity's price, commodity's price reducing causes the increase of demand and increase of volume of sales. What to do with the law of decreasing demand if demand grows in reality? But even if demand grows, but grows inversely

proportionally to price decreasing, i. e. at single elasticity of demand the demand curve must be a line, but not curve as it is presented on graph [4, p. 45].

So, as we see, a number of positions of the theory of demand in works of modern economists is interpreted incorrectly. It is necessary to say that all these erroneous wrong positions of the theories of demand, analyzed in works of modern economists, are not invention of these economists. They are based on ideas and theories proposed and published by western bourgeois vulgar economists. There are theories of decrease and theory of marginal utility which modern theory of demand used as a background. These and other vulgar theories had been critiqued by the classics of marxism, soviet economists, but in a situation of firming historical and economic conditions and disintegration of Soviet Union former soviet and modern young economists are consider now all these vulgar theories as truth.

There is inscription in a textbook on the bases of economic theory edited by V.D. Kamaeva that the authorial collective of this textbook awarded grant for the best textbook from a fund "Cultural initiative" (Soros' fund). We know, who is Soros and what ideas he adheres to. Therefore authorial collective of textbook got an grant because one of the first began frankly to propagandize the vulgar theories of bourgeois western economists.

It should be noted that some modern economists also criticize the modern theory of demand and especially sharply and justly criticize the theory of decrease of utility and marginal utility [7, p. 144 — 152].

But let's back to the theory of demand. If modern economists explain the change of demand incorrectly then how really change of demand, what is mechanism of this change?

Such called law of decreasing of demand is expressed in fact that satiation by one or another commodity reduce demand. It is impossible to contest this fact. However this law is only a tendency. Action of law of increasing necessities, formulated by V. I. Lenin, and also action of law of the increasing labor productivity that increase the level of production and profits, create more powerful tendency and real (actual) increasing of demand. The tendency of decreasing of demand appears not because of reducing utility as far as the satiation of demand (the utility of consumption does not reduce and even can increase, for example, the consumption of drugs). If, for example, family wanted had money to buy two sacks of potatoes for winter, but in a power of unexpected circumstances, related to the place of keeping of potatoes, family bought in August only one sack of potatoes and the second sack of potatoes it bought only at the end of September. In August demand on potatoes got two sacks although it satisfied only a half of demand. In September demand on potatoes reduced in 2 times and got one sack only. However it does not means that the utility of the second sack of potatoes became in two times less than of first. Family demand on potatoes in September reduced because it was partly satisfied in

August, but not because the utility of 2nd sack of potatoes decreased.

For conclusion, it is necessary to mark that incorrect positions of modern theory of demand are conditioned not by errors of separate economists and conditioned by disintegration of the USSR and crash of the socialistic system, by mass spreading in modern economic literature of the bourgeois vulgar theories.

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Zolotov A. F., Omelchenko O. Y. The Theory of Demand: Critical Analysis

The article is devoted to critically analyze some positions of the modern theory of demand, in particular in particular the relationship of demand and prices, terms volume of sales and volume of demand etc.

Key words: market economy, demand, price, necessity, solvency, volume of demand, volume of sales.

Золотов А. Ф., Омельченко О. Ю. Теорія попиту: критичний аналіз

У статті подано критичний аналіз деяких положень сучасної теорії попиту, зокрема взаємозв'язку попиту й ціни, поняття „обсяг продажів” і „обсяг попиту” тощо.

Ключові слова: ринкова економіка, попит, ціна, потреба, платоспроможність, обсяг попиту, обсяг продажу.

Золотов А. Ф., Омельченко О. Ю. Теория спроса: критический анализ

В статье дается критический анализ некоторых положений современной теории спроса, а именно взаимосвязи спроса и цены, понятий «объем продаж» и «объем спроса» и др.

Ключевые слова: рыночная экономика, спрос, цена, потребность, платежеспособность, объем спроса, объем продаж.

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