SESSION 1.3

DEMAND ANALYSIS

Introductory Course on Economic Analysis of Investment Projects

Economics and Research Department (ERD)
Demand Analysis

- Critical to project success
- Methods of estimation
- Statistical projections
- Market surveys of potential customers
- Econometric modelling ‘contingent valuation’
Statistical Projections

- Demand is a function of income, product price, competitors' prices, taste/advertising
  \[ D = f(Y, X, P) \]

- Simple projections based on income elasticity of demand and targeted/projected GDP growth

- If elasticity is 1.2 then if GDP growth is 5% product demand growth is 6%
Statistical Projections

- Price can be included in a model where price elasticity is known or can be approximated

For transport

$$T_{xt} = (T_{x0} *(1+g_t)^y) * (C_{xt}/C_{x0})^n$$

where $T_{xt}$ is traffic flow (AADT) for type $x$, $t$ is a future year, $0$ is the base year, $g$ is GDP per capita growth rate, $y$ is income elasticity of demand, $C$ is generalized travel costs including any toll payments, and $n$ is a constant price elasticity
Market Surveys

• Can establish current expenditure patterns

• Contingent valuation (CV) surveys can be used to determine how much people would pay for good or service

• Also reveal what demand will be at a particular price
Generalized Travel Costs

Traffic

Demand

C1

C2

0

T1

T2

a

b

d
Thank you.