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 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

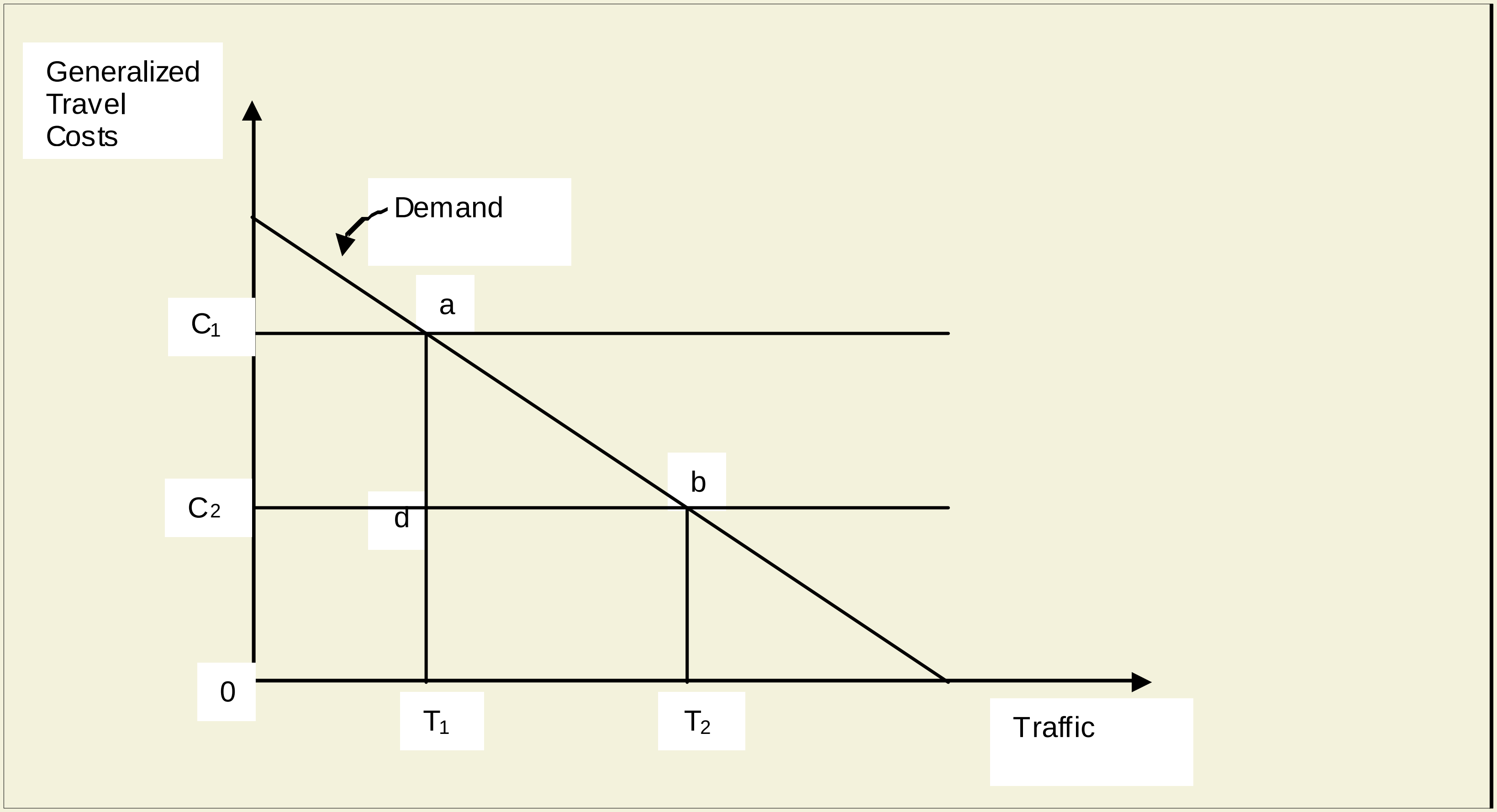
For transport

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

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
Demand
a
C1
b
C2
d
0
T1
T2
Traffic

Thank you.