

# SESSION 1.3

## DEMAND ANALYSIS

---

### Introductory Course on Economic Analysis of Investment Projects

Economics and Research Department (ERD)

*The views expressed in this presentation are the views of the author/s and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.*

# 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

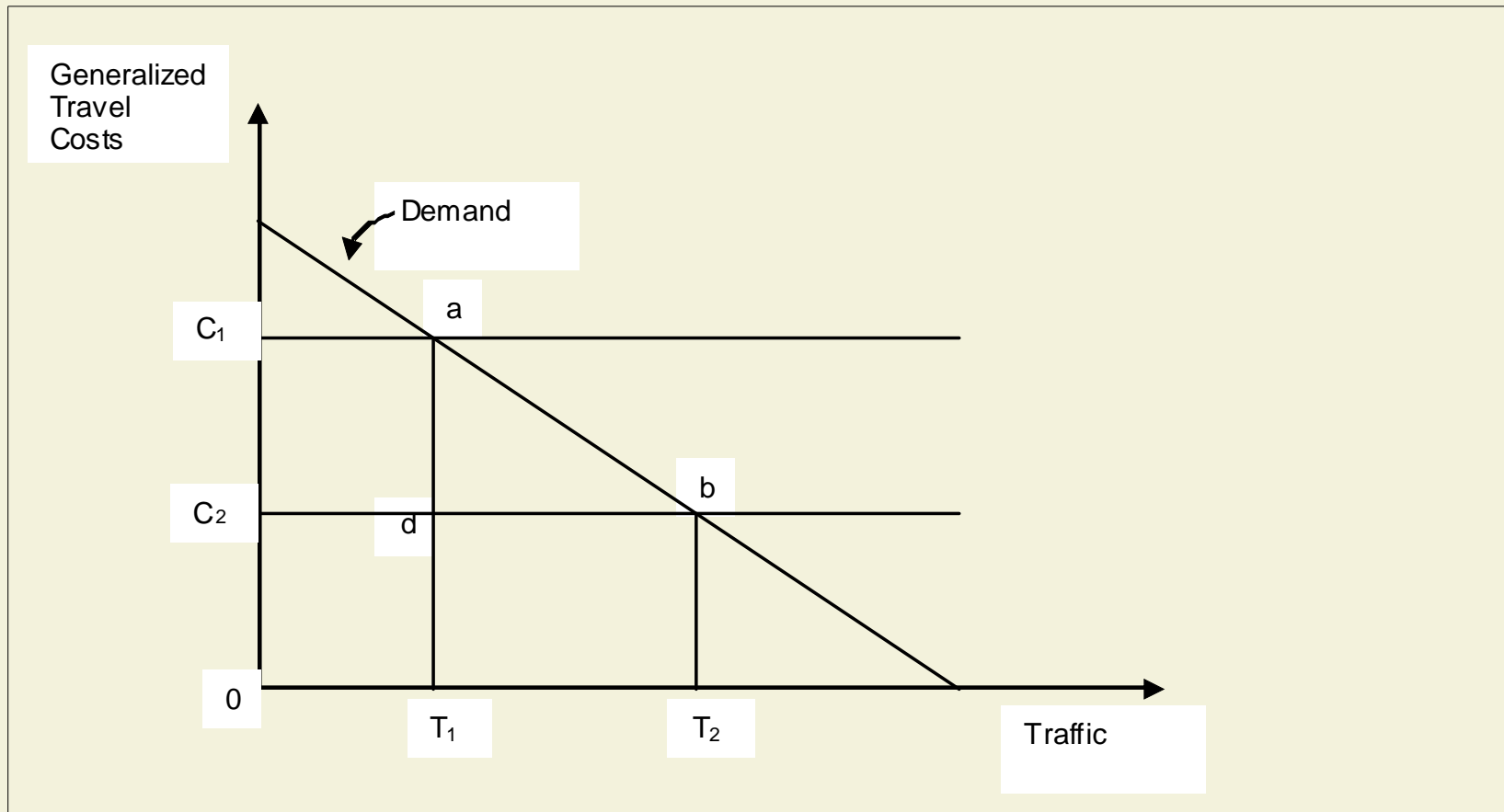
For transport

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

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



**Thank you.**