

Factors causing an increase in demand

1. Increase in Public Expenditure

An increase in public expenditure due to the outbreak of war or developmental planning leads to an increase in demand for goods and services. In fact this is an important cause giving rise to excess demand in the country.

2. Increase in Private Expenditure

An increase in private expenditure on consumption and investment leads to excess demand. When business conditions are good. Private entrepreneurs invest more funds in new enterprises. This leads to increase in demand for the services of factors of production. The factor prices go up. When factor incomes increase, expenditure on consumption goods increase. Thus increase in private expenditure pushes up the demand for commodities as well as factors of production.

3. Increase in Exports:

An increase in foreign demand for a country's products make less and less available for domestic consumption. This creates shortage leading to inflation.

4. Reduction in taxation

When the government reduces taxes, the purchasing power of the people increases. This leads to the demand for more goods and services for private consumption

5. Repayment of past internal debts:

When the government repays its past debts to the public it results in an increase in purchasing power. This naturally leads to increase in demand.

6. Rapid growth of population

Rapid growth of population pushes up the aggregate effective demand for goods and services. This acts as an inflationary force.

7. War

Modern wars between countries and international tension are responsible for the growth of public expenditure. The increase in defence expenditure is not followed by an increase in the supply of goods and services. There is ultimately rising in prices.

8. Growth of trade unions

When labour unions grow, their bargaining power increases. They demand higher wages by using the weapon of strike. When increased wages are paid to the labourers., prices will rise.

9. Expansion of Credit

The commercial banks may expand the volume of credit in the country when the monetary policy of the central bank is favourable.

Hence prices rise.