

## **Changing dynamics of demand for Petrol and Diesel cars in Indian market**

Indian car market has witnessed major fluctuations in demand for petrol and diesel cars during last decade. In first half of this decade the demand for both petrol and diesel cars saw a steady growth with growing economy. The average yearly growth of demand for cars stood above 10 percent during this period. But the growth rate of demand for diesel cars outstripped that of petrol cars with relatively lower diesel prices and higher mileage of diesel cars. With rapidly expanding market for diesel cars the local and multinational car manufacturers have set up huge production capacities to produce diesel cars for catering to the market requirements.

But the recent studies on the demand for cars in Indian market revealed some interesting findings. First, there is a marked difference between aggregate demand for cars and demand for Petrol cars and Diesel cars with respect to price. Second, the demand for diesel cars has slowed down rapidly in the recent years due to changes in government policy regarding pricing of petroleum products. Due to the changes in pricing of petroleum products the price differential between petrol and diesel has narrowed down significantly. The rise in diesel prices by 20 per cent has reduced the demand for diesel cars by 15 percent. Third, the Government has tighten the pollution norms and in order to meet the higher emission standards the cost of producing diesel vehicles has gone up due to which the price of the diesel cars have increased by 5 percent. The rise in price of diesel cars has contributed to rise in demand for petrol cars by 10 percent. Fourth, during last one year the overall demand for cars saw a slump of 8 per cent due to slowdown of 2 percent in GDP growth rate.

Most of these studies suggest that the price elasticity of aggregate demand for cars is around -1.5 to about -1.8 but the price elasticity for specific model of petrol car is in the range of -3 to -3.8 whereas the price elasticity for specific model of diesel car is in the range of -2.8 to -3.2.

### ***Questions:***

1. "... there is a marked difference between aggregate demand for cars and demand for Petrol cars and Diesel cars with respect to price". Elaborate the statement in light of the case.
2. Calculate the Income elasticity of car in India for the last year. On the basis of the income elasticity, comment on what type of commodity Car is.
3. Comment upon the nature of relationship between Petrol car and Diesel car on the basis of the information given in the case. Decide what managerial decisions can be taken on the basis of the information provided.

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