Assignment 1 ECON 210

The Law of Demand

- The law of demand asserts that when the price of a commodity decreases, the quantity demanded of that commodity increases, and conversely, when the price rises, the quantity demanded decreases, assuming that all other factors remain unchanged.
- It illustrates an inverse correlation between the price of a product and the quantity consumers are willing to purchase.

Assumptions of the Law of Demand

1. Income Stability: It presupposes that consumer incomes remain consistent.

2. Tastes and Preferences: It presupposes that consumer preferences remain unaltered.

3. Prices of Substitutes and Complements: It presupposes that the prices of substitute and complementary goods remain steady.

Explanation Using Demand Schedule and Curve

- A demand schedule presents the quantity demanded at different price levels.

- A demand curve is constructed from this schedule, sloping downward from left to right, representing the inverse relationship between price and quantity.

Why the Law of Demand Holds True

1. Diminishing Marginal Utility: Reduced prices enhance the satisfaction derived from each additional unit, prompting increased demand.

2. Income Effect: Lower prices increase consumers' actual purchasing power, facilitating more purchases.

3. Substitution Effect: More affordable goods replace pricier alternatives, fostering greater demand.

4. Enhanced Utility: Reduced prices make goods suitable for additional uses, bolstering demand.

Instances Contradicting the Law of Demand

1. Giffen Goods: Some goods, like Irish potatoes in adverse conditions, deviate from the law due to income constraints.

2. Conspicuous Consumption: Prestigious items may exhibit upward-sloping demand curves due to their status symbol attributes.

3. Quality Perception: For products where perceived quality is linked to higher prices, demand may rise at elevated price points.

4. Speculation: Anticipated future price increases can lead to heightened demand at higher prices.