**Assignment No # 1**



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**Class: BCS-8th**

**Department: IT**

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**Group No: 2**

**Topics: Consumer Theory, Demand, Law of Demand**

**Hazara University, Mansehra**

**Consumer Theory:**

Consumer theory is the study of how people decide to spend their money based on their individual preferences and budget constraints. A branch of microeconomics, consumer theory shows how individuals make choices subject to how much income they have available to spend and the prices of goods and services.

Consumer theory is the study of how people decide to spend their money based on their individual preferences and budget constraints.

Building a better understanding of individuals’ tastes and incomes is important because these factors impact the shape of the overall economy.

Consumer theory is useful but not flawless, as it is based on several assumptions about human behaviour.

Consumer theory seeks to predict their purchasing patterns by making the following three basic assumptions about human behaviour:

1. **Utility maximization**

Individuals are said to make calculated decisions when shopping, purchasing products that bring them the greatest benefit, otherwise known in economic terms as a maximum utility.

1. **Non-satiation**

People are seldom satisfied with one trip to the shops and always want to consume more.

1. **Decreasing marginal utility**

Consumers lose satisfaction with a product the more they consume it.

**Demand:**

Demand is the consumer's desire to purchase a particular good or service. Market demand is the demand for a particular good in the market. Aggregate demand is the total demand for goods and services in the economy. Demand and supply match determines the price of the good or service.

**Law of Demand:**

The law of demand is one of the most fundamental concepts in economics. It works with the law of supply to explain how market economies allocate resources and determine the prices of goods and services that we observe in everyday transactions. The law of demand states that the quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded. This occurs because of diminishing marginal utility.

That is, consumers use the first units of an economic good they purchase to serve their most urgent needs first, then they use each additional unit of the good to serve successively lower-valued ends.

* The law of demand is a fundamental principle of economics that states that at a higher price, consumers will demand a lower quantity of a good.
* Demand is derived from the law of diminishing marginal utility, the fact that consumers use economic goods to satisfy their most urgent needs first.
* A market demand curve expresses the sum of quantity demanded at each price across all consumers in the market.
* Changes in price can be reflected in movement along a demand curve, but by themselves, they don't increase or decrease demand.
* The shape and magnitude of demand shifts in response to changes in consumer preferences, incomes, or related economic goods, not usually to c

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