

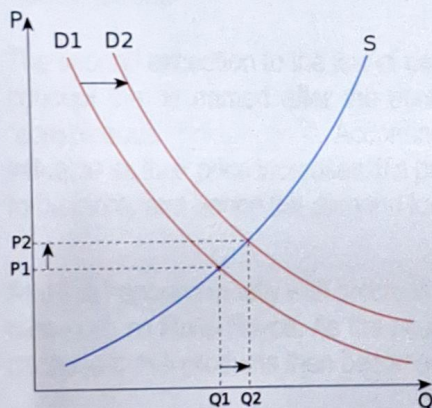
Exceptions to the Law of Demand

We all know that supply and demand factors influence the market conditions of an economy and determine the prices of goods and services. In a competitive market, the price conditions of a product or service will keep varying until the demand equals the supply thereby creating an equilibrium. Let us look at some exceptions to this law of demand like Giffen goods, necessary goods, etc.

Law of Demand

Now the law of demand states that all conditions being equal, as the price of a product increases, the demand for that product will decrease. Consequently, as the price of a product decreases, the demand for that product will increase. For instance, a consumer may buy two dozens of bananas if the price is Rs.50.

However, if the price increases to Rs.70, then the same consumer may restrict the purchase to one dozen. Hence, the demand for the bananas, in this case, was reduced by one dozen. Therefore, the law of demand defines an inverse relationship between the price and quantity factors of a product.



The graph shows the demand curve shifts from D1 to D2, thereby demonstrating the inverse relationship between the price of a product and the quantity demanded.

Exceptions to the Law of Demand

Note that the law of demand holds true in most cases. The price keeps fluctuating until an equilibrium is created. However, there are some exceptions to the law of demand. These include the Giffen goods, Veblen goods, possible price changes, and essential goods. Let us discuss these exceptions in detail.

Giffen Goods

Giffen Goods is a concept that was introduced by Sir Robert Giffen. These goods are goods that are inferior in comparison to luxury goods. However, the unique characteristic of Giffen goods is that as its price increases, the demand also increases. And this feature is what makes it an exception to the law of demand.

The Irish Potato Famine is a classic example of the Giffen goods concept. Potato is a staple in the Irish diet. During the potato famine, when the price of potatoes increased, people spent less on luxury foods such as meat and bought more potatoes to stick to their diet. So as the price of potatoes increased, so did the demand, which is a complete reversal of the law of demand.

Veblen Goods

The second exception to the law of demand is the concept of Veblen goods. Veblen Goods is a concept that is named after the economist Thorstein Veblen, who introduced the theory of "conspicuous [consumption](#)". According to Veblen, there are certain goods that become more valuable as their price increases. If a product is expensive, then its value and utility are perceived to be more, and hence the demand for that product increases.

And this happens mostly with precious [metals](#) and stones such as gold and diamonds and luxury cars such as Rolls-Royce. As the price of these goods increases, their demand also increases because these products then become a status symbol.

The expectation of Price Change

In addition to Giffen and Veblen goods, another exception to the law of demand is the expectation of price change. There are times when the price of a product increases and market conditions are such that the product may get more expensive. In such cases, consumers may buy more of these products before the price increases any further. Consequently, when the price

drops or may be expected to drop further, consumers might postpone the purchase to avail the benefits of a lower price.

For instance, in recent times, the price of onions had increased to quite an extent. Consumers started buying and storing more onions fearing further price rise, which resulted in increased demand.

There are also times when consumers may buy and store commodities due to a fear of shortage. Therefore, even if the price of a product increases, its associated demand may also increase as the product may be taken off the shelf or it might cease to exist in the market.

Necessary Goods and Services

Another exception to the law of demand is necessary or basic goods. People will continue to buy necessities such as medicines or basic staples such as sugar or salt even if the price increases. The prices of these products do not affect their associated demand.

Change in Income

Sometimes the demand for a product may change according to the change in income. If a household's income increases, they may purchase more products irrespective of the increase in their price, thereby increasing the demand for the product. Similarly, they might postpone buying a product even if its price reduces if their income has reduced. Hence, change in a consumer's income pattern may also be an exception to the law of demand.

Solved Example for You

Q: Which of the following is a Veblen Good?

- a. Potatoes
- b. Salt
- c. Luxury Car
- d. None of the above

Ans: The correct answer is C. A luxury car is a Veblen good. They are expensive products whose value increases if the price is higher. More expensive the product, the higher its value.