Law of demand

Definition

Other thing remaining the same,

when the price of any commodity rises … its demand contracts

When the price of any commodity falls … its demand expands

Demand function

Qd = f(P, Ps, Y, T, E, Nc)

P = Price of good

Ps = Price of substitute

Y = Income of the consumer

T = Taste of the consumer

E = Expectations of the consumer

Nc = Number of consumers

If Ps, Y, T, E and Nc are held constant, the demand function can be stated as

Qd = f(P)

There exists negative relationship between Qd and P, and this relationship can be stated as

Standard form: Qd = a – bP

a and b are parameters of demand function

‘-’ sign represents negative relationship between Qd and P

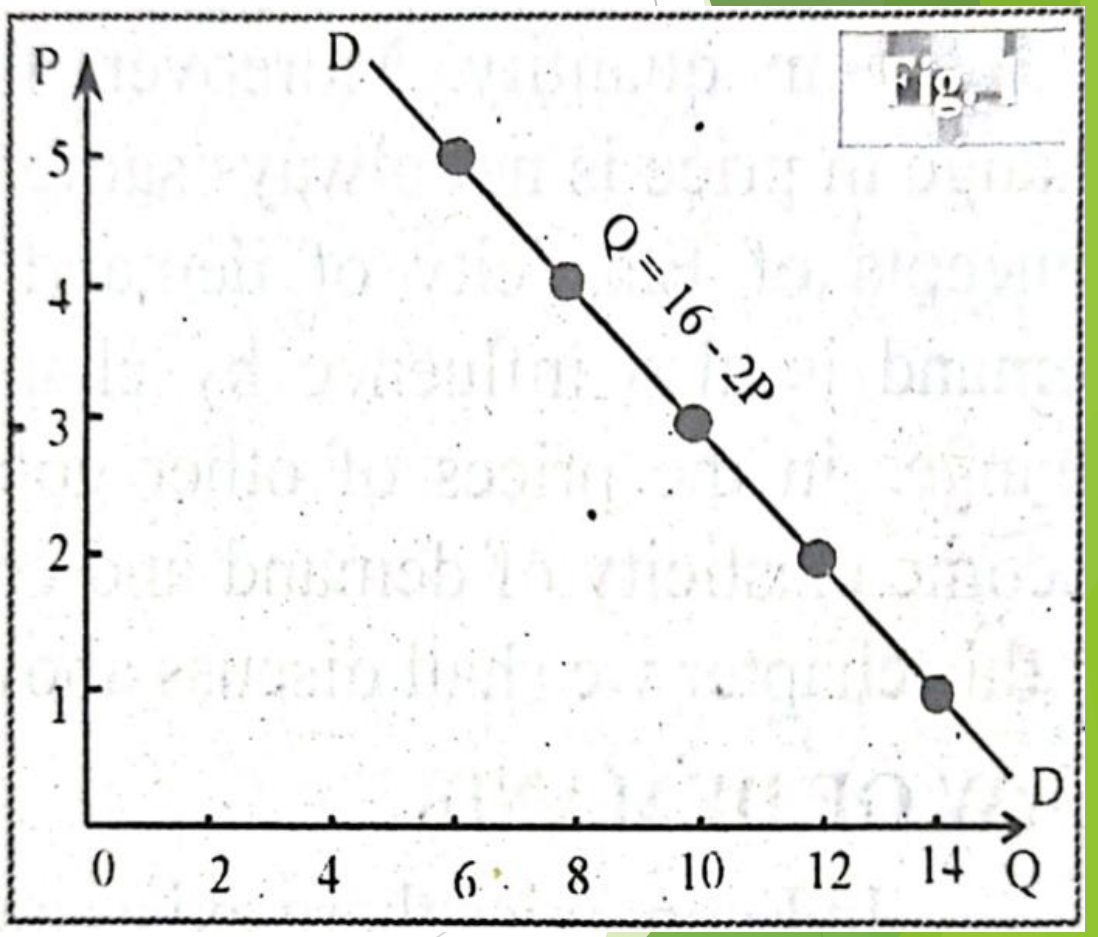
Table and diagram

Demand function can be written in numerical form as

Qd = 16 – 2P

Assuming different values of P, following table is made

P	Qd = 16 - 2P
1	Qd = 16 – 2(1) = 14
2	Qd = 16 – 2(2) = 12
3	Qd = 16 – 2(3) = 10
4	Qd = 16 – 2(4) = 8
5	Qd = 16 – 2(5) = 6



Expansion and Contraction of demand

Expansion

Increases in demand due to decrease in price is called expansion of demand

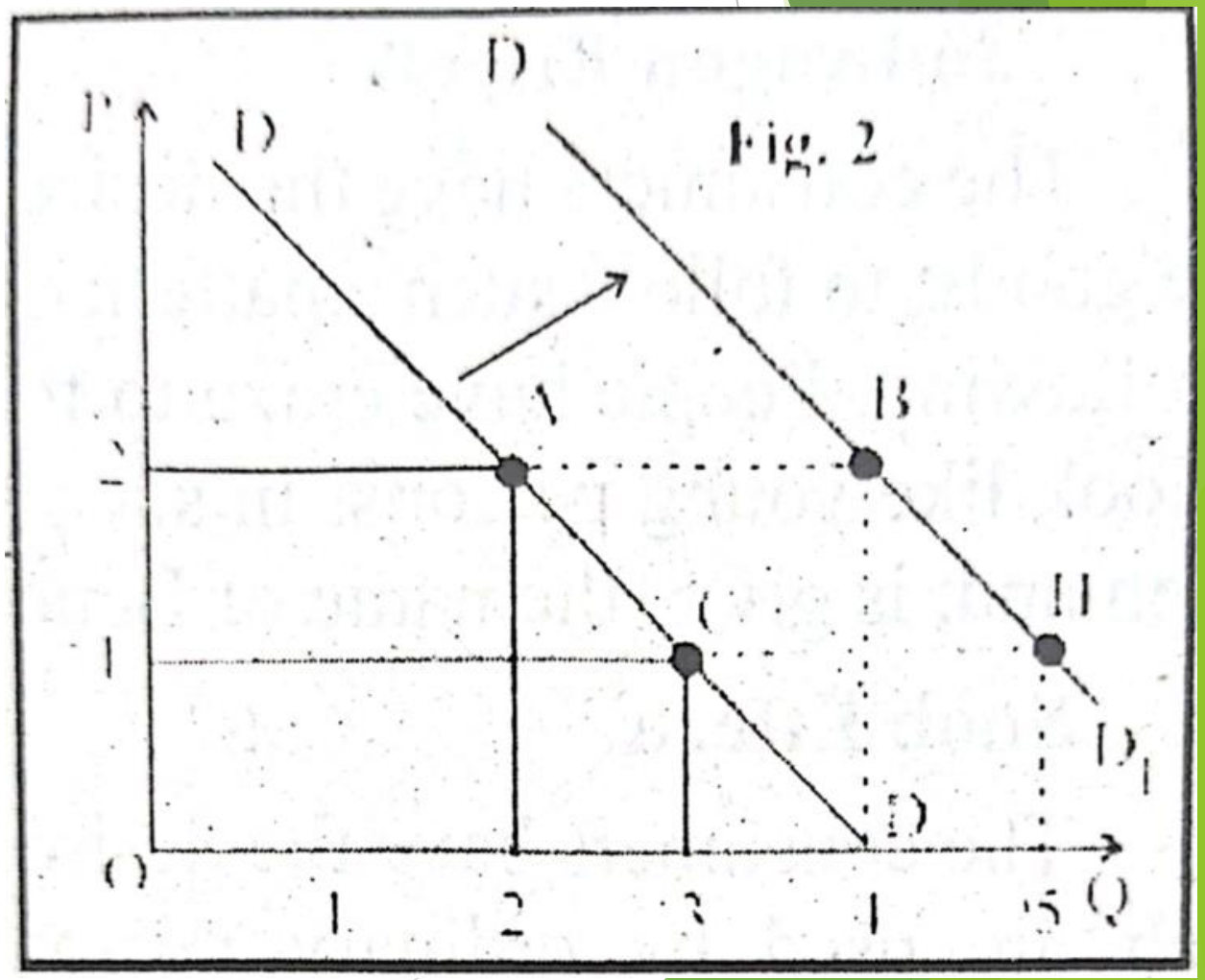
Contraction

Decrease in demand due to increase in price is called contraction of demand

Rise in demand

Increase in demand due to other factors (increase in income, Taste of consumers, increase in Nc) is called rise in demand.

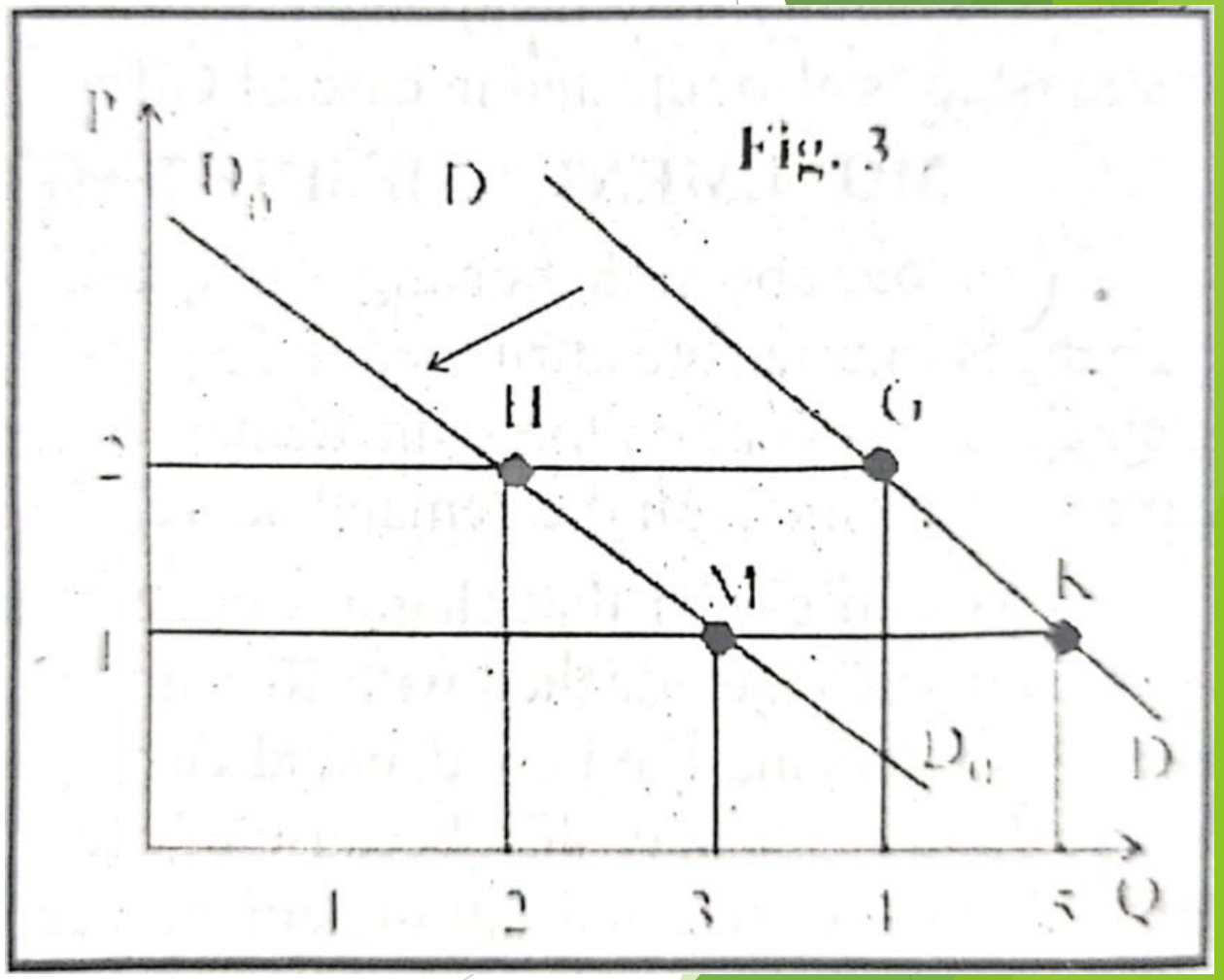
Demand curve shifts to right



Fall in demand

Decrease in demand due to other factors (decrease in income, Taste of consumers, decrease in Nc) is called fall in demand.

Demand curve shifts to left



Causes of shifting of demand curve

- Increase in income
- Increase in population
- Change in fashion and taste of consumer
- Change in season