Law of Demand

BCA Sixth Semester

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"Other things remaining the same, when the price of a commodity falls, quantity demanded for the commodity will increase and on the contrary, as the price of the commodity rises, the quantity demanded for the commodity will decrease".

Therefore, low of demand is the relationship between quantity demand and price of the commodity, ceteris paribus.

Assumptions:-

Income of the consumer remains constant.

Taste and preference of the consumer remain same.

There is no change in price of related commodity.

There is no change in advertisement expenditure.

There is no change in size of population.

Demand Schedule:-

It is the list between different prices of a commodity and its corresponding quantity demanded per unit of time.

Price (Rs.)	Quantity Demanded (Kg.)
5	2
4	4
3	6
2	8
1	10

Individual Demand Curve

Market Demand Curve:- market demand curve shows the functional relationship between price of the commodity and quantity demand of all individual in the market, keeping other things remaining the same. It the horizontal summation of individual demand curve. A market demand curve can be derived with the help of market demand schedule.

Market Demand Schedule

Price (Rs.)	A's Demand	B's Demand	Market Demand
10	2	1	3
8	3	2	5
6	4	3	7
4	5	4	9
2	6	5	11

Reasons behind downward sloping demand curve

Why the demand curve is negatively sloped? Or why the demand for commodity increases when the price of commodity falls and vice versa?

Income Effect: when price falls, purchasing power of the consumer increases or real income increases.

Substitution Effect: When the price of the commodity decreases, it becomes relatively cheaper than other commodities. So, rational consumer tends to substitute cheaper goods for costlier one.

Low of diminishing marginal utility:- Marginal utility is the utility derived from the consumption of marginal unit of a commodity. The low of diminishing marginal utility suggests that when a consumer consumes more and more units of a commodity, the marginal utility will decline from the additional units of consumption. Therefore, consumer's demand more units of a commodity only when the price of the commodity falls. Therefore, demand curve slopes downward.

Entry of new consumers:- when price of the commodity falls, many new consumers who have low purchasing power enter into the market. They can buy more and more quantities of that commodity at lower price. Therefore, the demand for the commodity increases in lower price and vice versa.

1. Movement along demand curve

2. Shifts in demand curve

Increase in demand (rightward shift in demand curve)

Increase in price of substitute goods

Increase in consumer's income

Increase in size of population

Increase in cost of advertisement

Decrease in price of complementary goods

Expectation of the rise in price of the commodity in the future

Decrease in Demand (Leftward Shift in Demand Curve)

Decrease in price of substitute goods

Decrease in consumer’s income

Decrease in size of population

Decrease in cost of advertisement

Increase in price of complementary goods

Expectation of the fall in price of the commodity in the future