Law of Demand: Law of demand states that when all other things remaining the same, if the price of a commodity rises, the quantity demand for that commodity goes down and if the price of a commodity declines, the quantity demanded of that commodity goes up.

Figure 1: Demand Curve

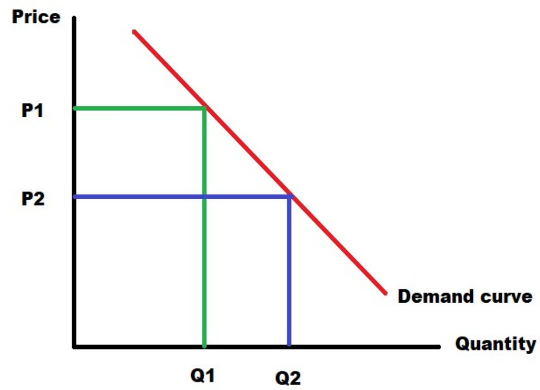
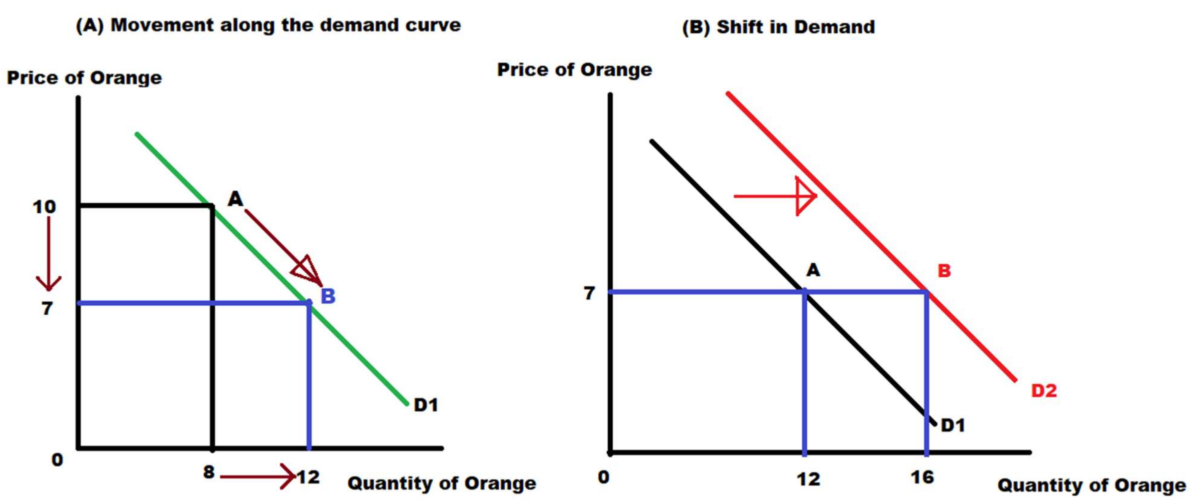


Figure-1 illustrates the demand curve. When the price of a commodity was P1, the quantity demand was Q1. When the price declines from P1 to P2, the quantity demand increases from Q1 to Q2.

Movement along the demand curve versus shift in demand:

When only the price of a commodity changes and other things remaining the same, the quantity demand changes along the demand curve from one point to another, that is called change in quantity demanded or movement along the demand curve. For example, when the price of an orange decreases from 10 taka to 7 taka, the demand of Orange increases from 8 units to 12 units. Therefore, the quantity demanded moves from point A to point B in the D1 demand curve.

Figure 2: Movement along the demand curve versus shift in demand



When any other determinants of demand (income, wealth, taste and preference, expected future prices, number of buyers etc.) changes and price remain fixed, then the demand curve shifts and we get a new demand curve. This is called change in demand or shift in Demand. For example, income of a person increases, therefore, at a constant price of 7 taka, the demand curve shifts from D1 to D2 as shown in figure.

<u>Law of Supply:</u> Law of supply states that when other things remaining the same, if the price of a commodity rises, the quantity supply of that commodity also rises and if the price of a commodity falls the quantity supply for that commodity also goes down.

Figure 3: Supply Curve

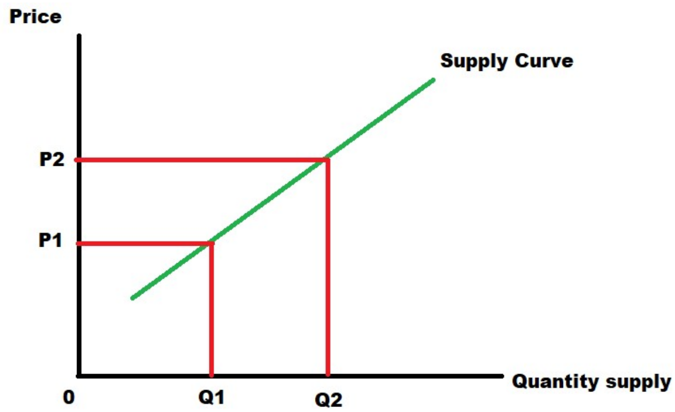
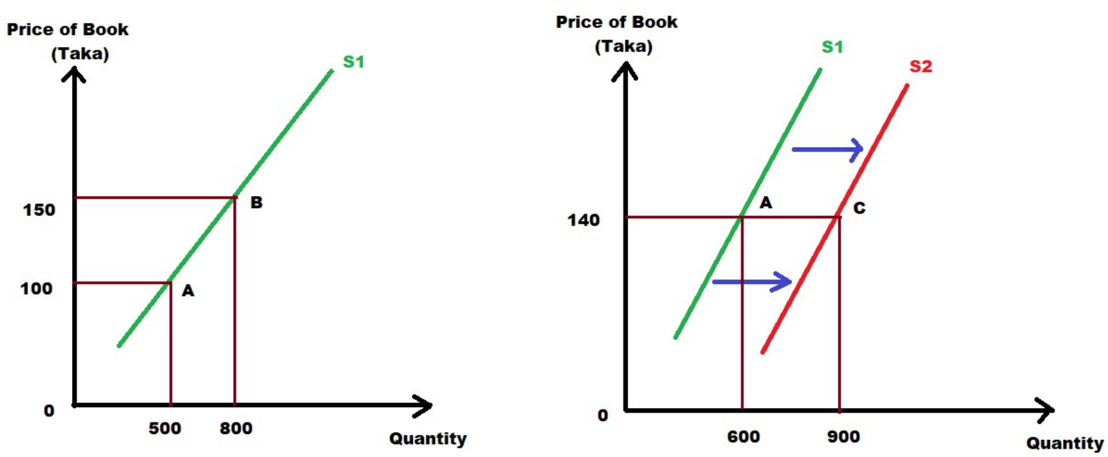


Fig. 3 illustrates the supply curve where we observe that when the price was P1, the quantity supplied was Q1, but when price increases to P2, the quantity supplied also goes up to Q2.

<u>Movement along the supply curve versus shift in supply:</u>

When only the price of a commodity changes and all other things remaining the same, the quantity supply changes along the supply curve. For example, when the price of a book increases from 100Tk to 150Tk, the quantity supply increases from 500 units to 800 units. Therefore, the quantity supply moves from point A to B along the supply curve S1.

Figure 4: Change in quantity supplied versus change in supply



Conversely, when any other determinant of supply (e.g., technology, number of sellers, prices of relevant resources, prices of related goods, expectations of future price, taxes and subsidies, government restrictions) changes and the price remain same, the supply curve shifts from initial supply curve to a new supply curve. This is called change in supply or shift in supply. For example, the price of a book remain constant at a price of 140Tk and the government provides 10 percent subsidy for the book. As a consequence of this incentive, the supply curve shifts to the right from S1 to S2.