Class :- B.Com - 1

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Paper : 1

Unit : II

Topic : Law of Demand

Lecture sequence No : 4

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Law of Demand.

The Law of Demand states, that, other things remaining constant, there is an inverse relationship between quantity demanded and own price of the commodity; and vice versa. In other words, there is an inverse relationship between quantity demanded of a commodity and its own price, other things remaining constant. The term 'other things being equal' implies that all other determinants of demand other than own price of the commodity, remain constant.

Assumption:

The law of demand assumes that 'other things remain unchanged, ie assumption of ceteris paribus order. As stated above demand for a commodity depends not only on its price, but also on many other factors eg. consumers income, price of the related goods, consumer's tastes and preference etc. These factors influencing the demand are assumed to be constant or unchanged. Thus the Law of demand is based on the following main assumption.

1. There should be no change in the income of the consumers.
2. There should be no change in the tastes and preferences of the consumers.
3. Price of the related commodities should remain unchanged
4. Size of population should not change.

(5) The distribution of income should not change.

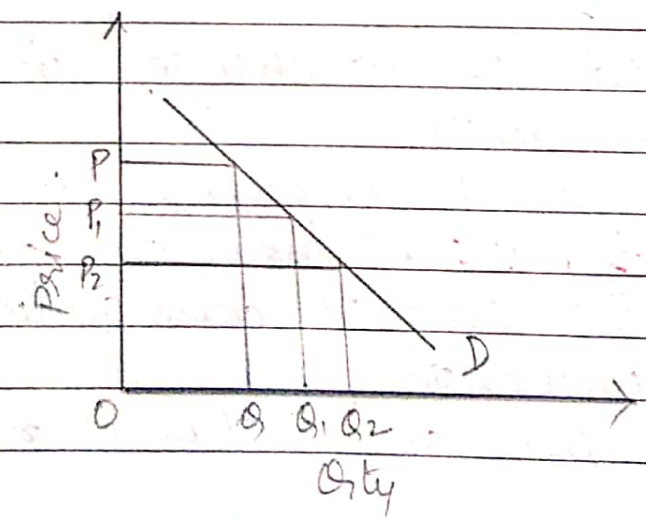
(6) The commodity should be a normal commodity.

The law of demand can be illustrated numerically through a Demand Schedule and graphically through a Demand Curve.

Demand Schedule:

P_x (Rs)	Q_x (units)
10	100
9	150
8	200
7	250

The schedule shows that quatity demanded increases from 100 to 150 when price of the commodity reduces from Rs 10 to 9Rs per unit. Likewise, quatity demanded increases from 150 to 200 unit when own price of the commodity reduces from 9/- to 8/- per unit. It may be further illustrated with the help of a demand curve as show below.



D slope downward. It shows inverse relationship between price and quantity demanded. This is universally true in case of normal goods. It is, therefore called the law of demand.

In the figure, demand curve D shows that demand for commodity X extends from OQ to OQ, when its price falls from OP to OP,. In fact downward slope of demand curve itself is an expression of the law of demand.

Why does Demand Curve Slope Downward.

Downward slope of demand curve indicates that more is purchased in response to fall in price. Thus, there is an inverse relationship between own price of a commodity and its quantity demanded. This may be explained in terms of the following factors:

(1) Law of Diminishing Marginal Utility

According to this law, as consumption of a commodity increases, marginal utility derived from each successive unit goes on diminishing. Accordingly for every additional unit to be purchased the consumer is willing to pay less and less price.

(2) Income Effect:

Income effect refers to the effect on quantity demanded when real income of the buyer changes owing to change in price of the

commodity. With a fall in price, real income increases. Accordingly, demand for the commodity expands.

(3) Substitution effect:

Substitution effect refers to substitution of one commodity for the other when it becomes relatively cheaper. Thus, when even price of commodity - X falls, it becomes cheaper in relation to commodity Y. Accordingly X is substituted for Y. It is expansion of demand (for commodity X) due to Substitution effect.

(4) Size of Consumer Group:

When price of a commodity falls, many more buyers can afford to buy it. Accordingly, demand for the commodity expands

(5) Different Uses:

A good may have ~~serve~~ several uses. Milk, for example, is used for making curd, chees and butter. If price of milk reduces, it will be put to different users. Accordingly, demand for milk expands.