Law of Demand

By

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Meaning and Definition of Demand

According to Benham: “The demand for anything, at a given price, is the amount of it, which will be bought per unit of time, at that price.”

According to Bobber, “By demand we mean the various quantities of a given commodity or service which consumers would buy in one market in a given period of time at various prices.”

Requisites:

a. Desire for specific commodity.

b. Sufficient resources to purchase the desired commodity.

c. Willingness to spend the resources.

d. Availability of the commodity at

   (i) Certain price
   (ii) Certain place
   (iii) Certain time.
FACTORS AFFECTING DEMAND

1. Prices of Goods
2. Income of Consumer
3. Prices of Related Goods
4. Population
5. Tastes, Habit
6. Expectation about future prices
7. Climatic Factors
8. Demonstration Effect
9. Distribution of national income
Demand Schedule

- Demand Schedule: a tabular presentation showing different quantities of a commodity that would be demanded at different prices.

- Types of Demand Schedules

Individual Demand schedule

<table>
<thead>
<tr>
<th>Price</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
</tr>
</tbody>
</table>

Market Demand Schedule

<table>
<thead>
<tr>
<th>Price</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>M.S</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50</td>
<td>45</td>
<td>40</td>
<td>135</td>
</tr>
<tr>
<td>2</td>
<td>40</td>
<td>30</td>
<td>38</td>
<td>108</td>
</tr>
<tr>
<td>3</td>
<td>35</td>
<td>20</td>
<td>30</td>
<td>85</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>15</td>
<td>25</td>
<td>60</td>
</tr>
</tbody>
</table>
Demand Curve

- The Graphical Representation of Demand Schedule is called a Demand Curve. It is of two types:

**Types of Demand Curve**

- **Individual DC**
  - Price
  - Less Flatter
  - Demand

- **Market DC**
  - Price
  - More Flatter
  - Demand
Figure 2.1 Market demand for tomatoes
Demand, the assumed inverse relationship between price and quantity purchased, can be represented by a curve that slopes down toward the right. Here, as the price falls from $11 to zero, the number of bushels of tomatoes purchased per week rises from zero to 110,000.
Figure 7.2 Market demand curve
The market demand curve for Coke, $D_{A+B}$, is obtained by summing the quantities that individuals A and B are willing to buy at each and every price (shown by the individual demand curves $D_A$ and $D_B$).
Demand Curve

- **Movement along demand curve Vs. Shift in demand curve:**
  - Distinction between change in quantity demanded and change in demand.

- **A. Change in quantity demanded** – When quantity demanded changes (rise or fall) as a result of change in price alone, other factors remaining the same.

- Contraction/fall in quantity demanded
- Extension/Rise in quantity demanded

- The change is depicted/represented by the movement up or down on a given demand curve. This does not require drawing a new demand curve.
An increase in demand is represented by a rightward, outward, shift in the demand curve, from $D_1$ to $D_2$. A decrease in demand is represented by a leftward, or inward, shift in the demand curve, from $D_1$ to $D_3$. 

![Figure 2.2 Shifts in the demand curve](image)
The Law of Demand

- **Prof. Samuelson**: “Law of demand states that people will buy more at lower price and buy less at higher prices, others thing remaining the same.”
- **Ferguson**: “According to the law of demand, the quantity demanded varies inversely with price”.

- **Chief Characteristics:**
  1. Inverse relationship.
  2. Price independent and demand dependent variable.
  3. Income effect & substitution effect.

- **Assumptions:**
  - No change in tastes and preference of the consumers.
  - Consumer’s income must remain the same.
  - The price of the related commodities should not change.
  - The commodity should be a normal commodity
The Law of Demand

**EXPLAINERs:**

Why demand curve slopes downwards?

1. Income effect
2. Substitution effect
3. Diminishing Marginal Utility
Law of Demand

- **Exceptions:**
  - Inferior goods
  - Articles of snob appeal. (exception: Veblen goods, eg., diamonds)
  - Expectation regarding future prices (shares, industrial materials)
  - Emergencies
  - Quality-price relationship
  - Conspicuous necessities.
  - Ignorance
  - Change in fashion, habits, attitudes, etc..

- **Importance:**
  - Price determination.
  - To Finance Minister
  - To farmers
  - In the field of Planning.
Market Research and Law of Demand

1. The more confidence a person has in price information as a predictor of quality, the more likely he’ll be to choose a high-priced, rather than a low-priced item.

2. A person who perceived himself as experienced in purchasing a product will generally choose a low-priced item, but an inexperienced person will select a high-priced one.

3. A person who selects a high-priced item will (i) believe it’s more difficult to judge product quality, and (ii) feel he has less ability to make accurate quality judgments than one who chooses a low-priced item.

4. A person who purchases a high-priced product would perceive large quality differentials. He would also feel that it is risky and uncertain to go in for a low-priced product.

5. Business executives also disagree that the consumer is rational. (Eg., Yale – the under priced lock)

6. Purchasing behavior of the consumer is mostly repetitive.
The Law of Demand

CHANGE IN PRICE = change in \textit{quantity} demanded

CHANGE IN OTHER = change in demand
The Law of Demand

CHANGE IN OTHER = change in demand
Determinants of Demand

Things other than price that cause the whole curve to shift

Increase: shift to the right
Decrease: shift to the left
Determinants of Demand

Change in consumer tastes
Change in people’s income

normal goods
inferior goods