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SUBJECT- PRINCIPLES OF ECONOMICS

THE LAW OF DEMAND - II

A demand curve is a graphical representation of a demand schedule or demand function.

- A demand curve for any commodity can be drawn by plotting each combination of price and demand on a graph.
- Price (independent variable) is taken on the Y-axis and quantity demanded (dependent variable) on the X-axis.

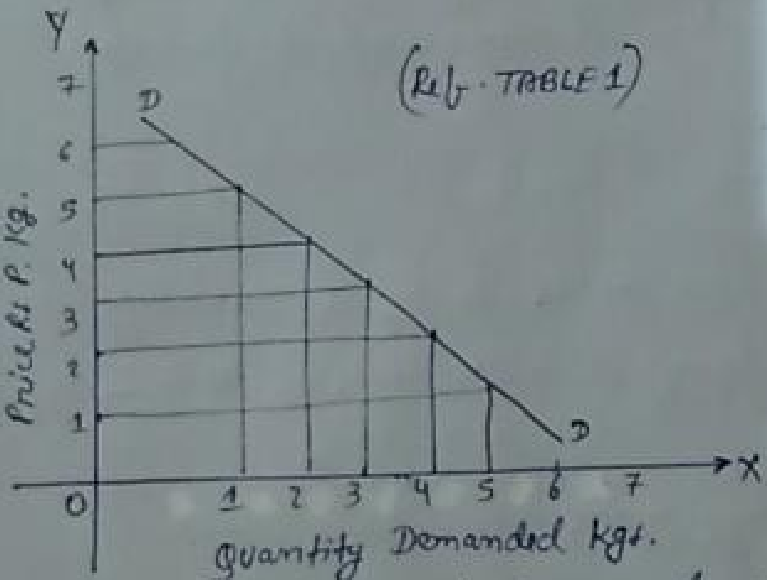

Figure: Individual Demand curve

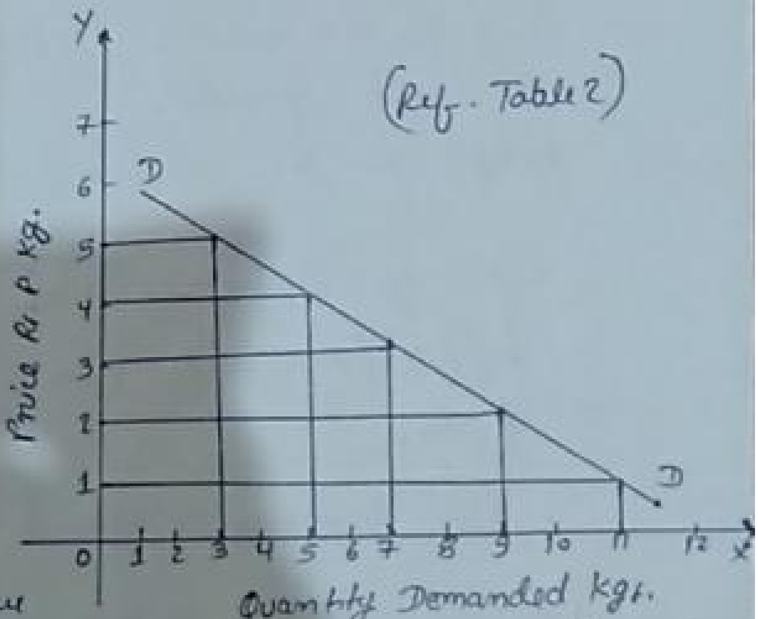

Figure: Market Demand curve

- Individual Demand curve as well as market demand curve slope downward from left to right indicating an inverse relationship between own price of the commodity and its quantity demanded.
- Market Demand curve is flatter than Individual Demand curve.
- Reasons for the law of demand and downward slope of a demand

curve are as follows:-

1. The Law of Diminishing Marginal Utility:

- According to this law, other things being equal as we consume a commodity, the marginal utility derived from its successive units go on falling.
- Hence, the consumer purchases more units only at a lower price.
- A consumer goes on purchasing a commodity till the marginal utility of the commodity is greater than its market price and stops when MU = Price i.e. when consumer is at equilibrium.
- When the price of the commodity falls MU of the commodity becomes greater than price and so consumer start purchasing more till again MU = price.
- It therefore, follows that the diminishing marginal utility implies downward sloping demand curve and the law of demand operates.

2. Change in the number of consumers:

- Many consumers who were unable to buy a commodity at higher price also start buying when the price of the commodity falls.
- Old customers starts buying more when price falls.

3. Various uses of a commodity:

- Commodity may have many uses. The number of uses to which the commodity can be put will increase at a lower price and vice-versa

4.

4. <u>Income effect:</u>

- when price of a commodity falls, the purchasing power (i.e. the real income) of the consumer increases.
- Thus he can purchase the same quantity with lesser money or he can get more quantity for the same money.
- This is called income effect of the change in price of the commodity.