

# PRINCIPLES OF ECONOMICS

B. Com Hons Part-I

TOPIC -

LAW OF DEMAND

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## \* LAW OF DEMAND

The law of Demand states that under the same conditions of demand, the quantity of a commodity bought tends to vary inversely with its price. At a higher price, less of the commodity would be bought and a lower price more of it would be bought, provided the conditions of demand remain unchanged.

Law of demand indicates the qualitative relationship between the price of a commodity and its quantity demanded. It indicates only the direction in which the demand will change. The law of demand is based on this psychological tendency of consumer.

### • Definitions of law of demand :-

- (1) According to the law, "other things being equal price and quantity demanded of a commodity move in opposite direction".
- (2) In the words of Marshall, "The amount demanded increases with a fall in price and diminishes with a rise in price".

(3) According to Samuelson, "When the price of goods is raised (at the same time that all other things are held constant) less of it will be demanded. . . . people will buy more at lower prices buy less at higher ones".

It is clear from the above definitions that under the given constant conditions, the price and the quantity demanded of a commodity are inversely related. It can be expressed as —

$$P \propto \frac{1}{Q} \quad \dots (i)$$

where,

P = Price of commodity  
Q = Quantity demanded.

Eq (i) states that if the price falls, demand will extend and vice-versa.

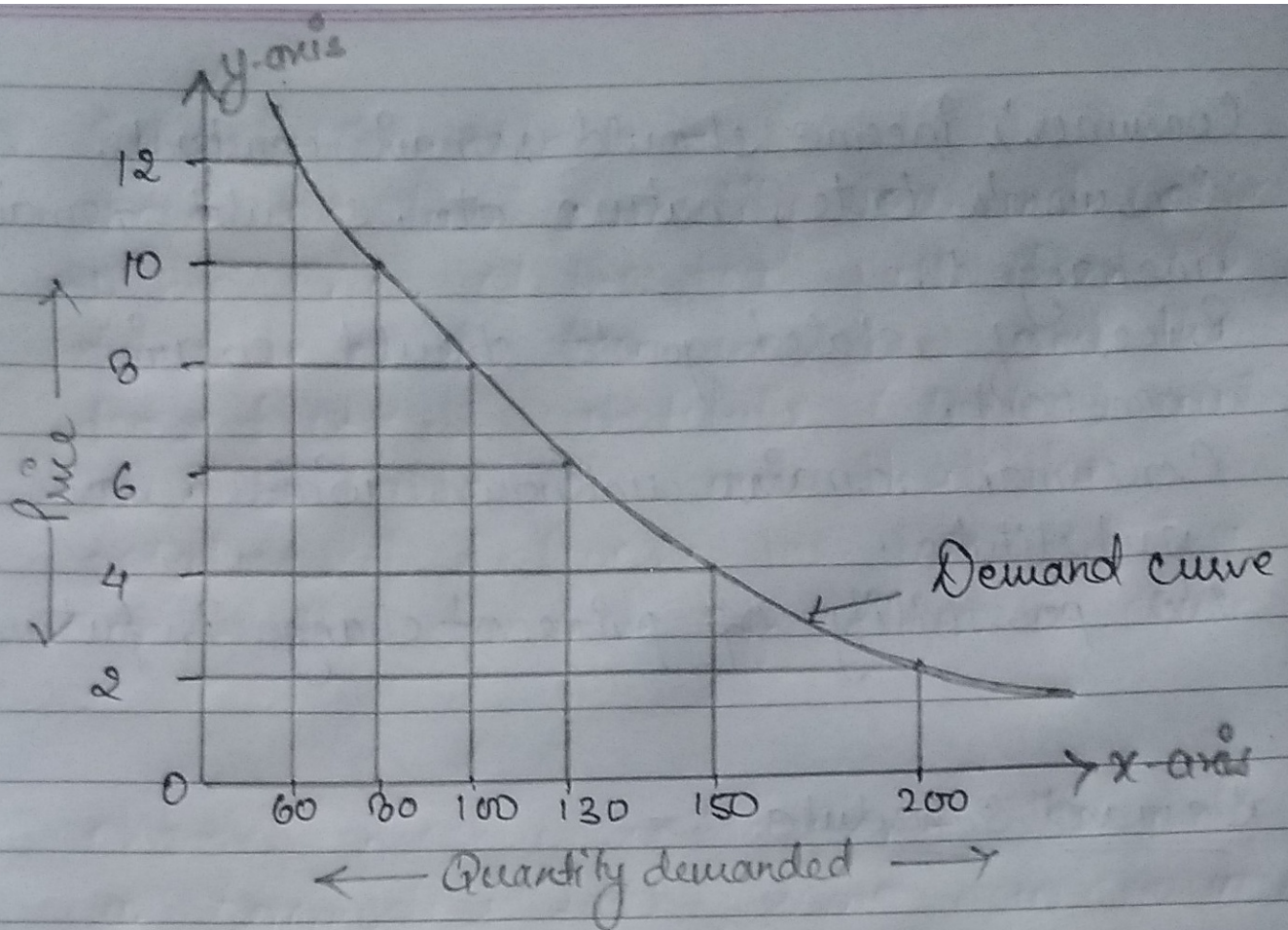
→ Meaning of 'other things being equal' — the law of demand is based on some assumptions. In other words, the law operates under the following assumptions:

- (i) Consumer's income should remain constant.
- (ii) Consumer's taste, nature etc. should remain unchanged.
- (iii) Prices of related goods should remain constant.
- (iv) Consumer remains unknown with a new substitute.
- (v) No possibility of price of change in future.

→ Demand Schedule :-

Demand schedule summarises the information on prices and quantity demanded in a tabular form.

Price of Goods per Unit (in ₹)	Units of Commodity X
2	200
4	150
6	130
8	100
10	80
12	60



On the basis of the above demand schedule, we can draw the demand curve of the consumer.

Other things being equal, price and quantity demanded of a commodity move in opposite direction. There is an inverse relationship between price and quantity demanded. If the price of a commodity increases, the demand for a commodity decreases and vice-versa.