

PRINCIPLES OF ECONOMICS

B. Com Hons Part - I

TOPIC -

Why Does Demand curve slopes
downward from left to Right?

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* Why does Demand Curve slopes downward from left to right?

Or

Explanation of law of Demand.

Downward sloping demand curve shows inverse relationship between price and demand.

(1) Law of Diminishing Marginal utility -
This law states that as the amount of goods consumed increases, the marginal utility of that goods tends to diminish. If the other things remaining constant, the law of demand operates because the law of diminishing marginal utility comes into force when a consumer buys additional quantities of a particular commodity.

(2) Income Effect -

A fall in the price of a commodity results in a rise in the consumer's real income. He can therefore, purchase more of it. On the contrary, a rise in the price of commodity amounts to fall in the real income. He is, therefore, forced to purchase less of it.

(3) Substitution effect -

There are two commodity Tea and coffee. If the price of the tea fall then the demand of the tea increases and the demand of its substitute (coffee) will also be fall. It shows that the relationship between the price of tea and the demand of coffee is direct.

(4) Change in consumer's Number - The price of a commodity fall, some new consumers enter the market and start purchasing the commodity. The old consumers also start consuming more of the commodity. If the price of a commodity increases, the new consumers withdraw or exit and old consumers start consuming more commodity.

(5) Inverse relationship between price and demand -

If the price of a commodity increases, the demand of that commodity will be decrease. If the price of a commodity decreases, the demand of that commodity will be increases.