# What is Law of Demand, Demand Curve, Factors, Limitation & Graph

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### What is Demand

The quantity of product that the consumers are willing to buy at a given price over a given period of time is called demand for that product. Thus demand is:

1. The desire for possession, and
2. The willingness (and ability) to pay for

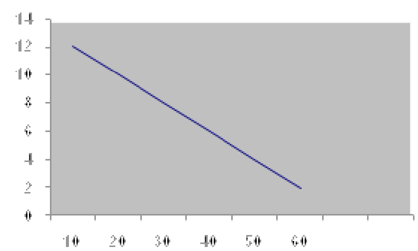
### What is Law of Demand

It is clear that demand is always at a price. The price and quality demanded have an inverse relationship. Thus increase in price of a product will decrease its demand and vice versa. It is called law of demand and it assumes all other factors to be constant except price. Let us consider the following example:

| | | | | | | |
|---|---|---|---|---|---|---|
| 1. Px | 12 | 10 | 8 | 6 | 4 | 2 |
| 2. Qx | 10 | 20 | 30 | 40 | 50 | 60 |

#### Law of Demand Graph

Plotting the above law of demand graphically




#### Illustration of Law of Demand Graph

We have the curve dd which given us various price-quantity combinations demanded by the consumers. The demand curve is a negatively slopped curve moving from left to right, showing the inverse relationship.

The increase or decrease in demand due to price changes is referred to as the **extension** or **contraction** of demand. The factor held constant, does not increase or decrease the demand along the original demand curve but they shift the whole demand curve towards right or left.

### Factors Influencing Demand

Following are the factors influencing Demand for a product:

1. Price of the commodity itself (charges or expected charges)
2. Tastes and preferences of the consumers
3. Incomes of the consumers
4. Price of the related goods, substitutes or complementary.
5. No of consumers in the market.

### Reasons for Downward Sloping Demand Curve

When price fall the quantity demanded of a commodity rises and when price rise quantity of a commodity falls, other thing remaining the same.

There are two factors of downward sloping demand curve due to which quantity demanded increase when price falls.

### 1. Income Effect

When the price of a commodity falls, the consumer can by more quantity of the commodity with his given income. As a result, price of a commodity, consumer's real price or purchasing power increase. This increase in real income induces the consumer to buy more of that commodity. This is called income effect of the changes in price of the commodity.

## 2. Substitution Effect

The other reason why the quantity of a commodity rises as its prices falls is the substitute effect. When the price of a commodity falls it becomes cheaper than other commodities. This induces the consumer to substitute the commodity whose price is fallen for other commodities, which relatively becomes dearer.

### Market Demand Curve

Horizontally summing up of all the individual demand curves gives us market demand curve.

### Limitations of Law of Demand

When the prices of normal goods rises, the demand for them decrease, there are few cases where the law cannot operated. Following are the limitations of law of demand.

#### 1. Prestige Goods

There are certain commodities like sports car or diamond, which are the sign of distinction and honor in any society. If the price of these goods increases the demand for them may be increase instead of falling.

#### 2. Price Expectations

Expect a further increase in the price of a specific commodity they will go to buy more and more in spite of rising in price. In this case the violation of law is temporary.

#### 3. Ignorance of the Consumer

If the consumer is ignorant about the rise in price of goods, he may buy more of the commodity at higher price.

#### 4. Giffen Goods

If the prices of basic goods like (sugar, wheat etc) on which the poor spend a large part of their income declining the poor increase the demand for superior goods. When the price of giffen goods fall it demand will also falls. There is a positive price effect in the case of giffen goods.

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