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B.A. Economics, Part -1
Paper - I
Topic - Theory of Demand

<u>Law of Demand :</u>

<u>Introduction</u>

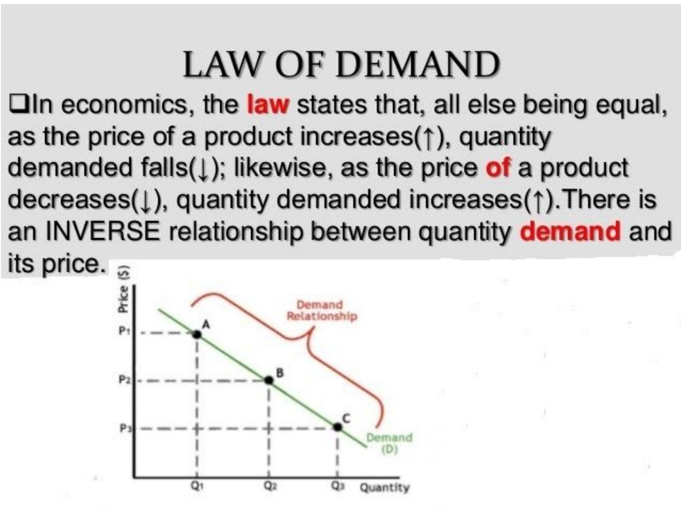
The purpose of the grip of demand is to determine the various factors that affect demand. The theory of demand is the establishment of "the law of demand". Law of demand shows the inverse relationship between demand and price of the same commodity when other factors remain constant.

Demand is multivariate relationship, that is it is determined by many factors simultaneously some of the most important determinants of the market demand for particular product are its own price ,consumers's income, price of the other commodities ,consumer's tastes ,income distribution, total population, consumer's wealth , credit availability, government policy , past levels of income, past levels of demand.

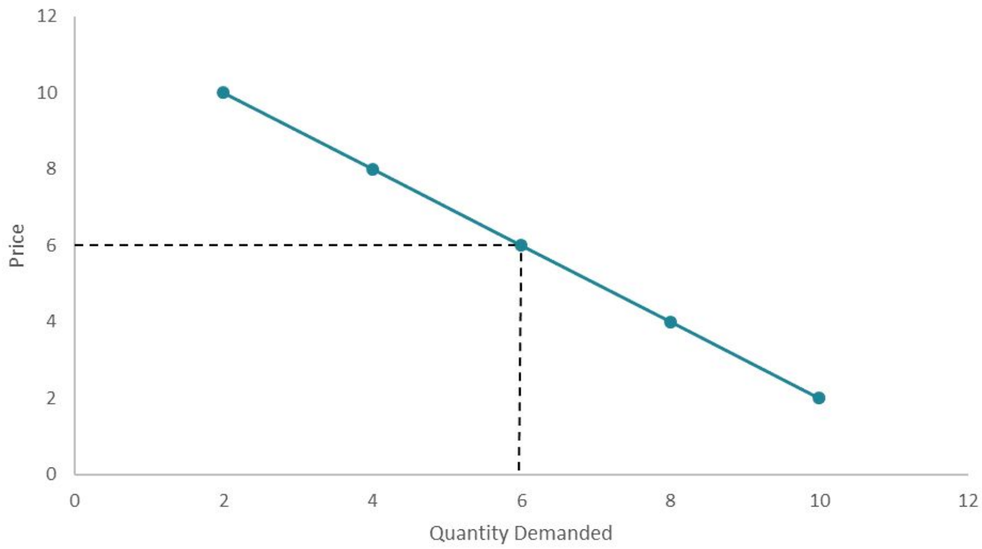
The law of demand was documented as early as 1892 by economist Alfred Marshall. Due to the law's general agreement with observation, economists have come to accept the validity of the law under most situations. Furthermore, researchers found that the success of the law of demand extends to animals such as rats, under laboratory settings.

Definition :

The law of demand states that other factors being constant (cetris peribus), price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall.



In other words ; The law of demand is a fundamental principle in macroeconomics. It is used together with the law of supply to determine the efficient allocation of resources in an economy and find the optimal price and quantity of goods.



Graphical Representation of the Law of Demand

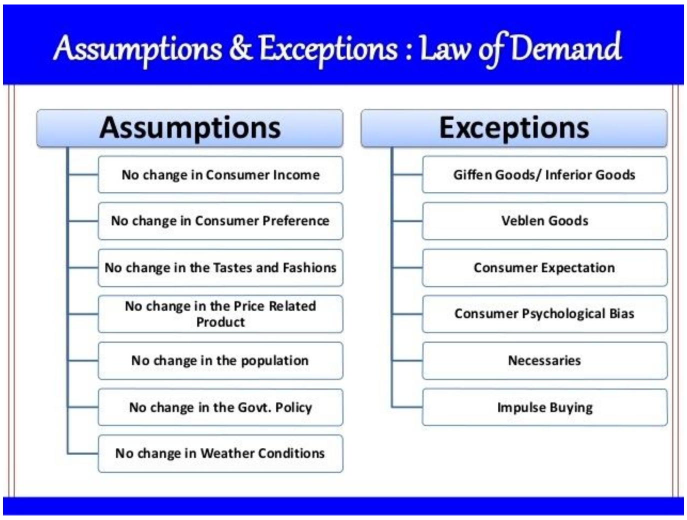
The law of demand is usually represented as a graph. The graphical representation of the law of demand is a curve that determines the relationship between the quantity demanded and the price of a good.

The shape of the demand curve can vary among different types of goods. Most frequently, the demand curve shows a concave shape. However, in many economics textbooks, we can also see the demand curve as a straight line.

The demand curve is drawn against the quantity demanded on the x-axis and the price on the y-axis. The definition of the law of demand determines that the demand curve is downward sloping.

It is important to distinguish the difference between the demand and the quantity demanded. The quantity demanded is the number of goods that the consumers are willing to buy at a given price point. On the other hand, the demand represents all the available relationships between the good's prices and the quantity demanded.

Assumptions and exception of law of demand:



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