

# Basic Approach on Demand and Law of Demand for Economics

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## **ABSTRACT:**

One of the most fundamental ideas in economics is the law of demand. It explains how market economies distribute resources and set the prices of goods and services that we see in daily transactions by combining the law of supply. According to the law of demand, the quantity bought varies inversely with price. In other words, the quantity demanded decreases as the price increases. Because of declining marginal utility, this happens. In other words, consumers utilize the initial units of an economic good they buy to fulfil their most pressing demands first, and then they use each additional unit to fulfil progressively lower-valued goals.

## **KEYWORDS:**

Curve, Demand, Good, Law, Price.

## **I. INTRODUCTION**

Demand in economics refers to the desire to have a thing or service backed by sufficient funds to purchase it. As a result, in economics, we are only concerned with effective demand, which is effectively supported by a sufficient supply of purchasing power. So, in order for demand to be effective, a person must have enough money to purchase what they want, in this case an automobile. Additionally, it should be noted that a consumer's willingness to purchase an item or service is necessary for demand to be fully realized. A person may have the means to purchase the thing at a certain time but not be ready to do so because of a sudden change in his preferences. For instance, a person might visit a shop to purchase his ideal car but decide against it because his desired hue is not available[1], [2].

Additionally, the demand for a good is always represented in connection to a specific price and period. As a result, we can define demand for a good as the quantity that will be bought at a specific price per unit of time. According to F. Bonham, the amount of anything at a given price that will be purchased per unit of time at that price is the demand for it. Bobber provides another excellent definition of demand: The various quantities of a given product or service which customers would buy in one market in a given period of time at various prices, at various incomes, or at various prices of related items. Demand is always a schedule in economics. It doesn't come in a single quantity. The quantity demanded is the amount that is purchased at a specific cost. Thus, the following variables affect commodity demand:

1. **Commodity Price:** A commodity's price is a key component in determining demand for a commodity. Consumers buy less of a commodity when the price goes up, and more of it when the price goes down. Here, we use the ceteris paribus assumption that all other factors will remain constant[3], [4].

2. **Consumer Income:** The demand for commodities is influenced by people's income levels. The demand for a good will increase as income increases. A higher salary translates into more spending power. As people's salaries increase, they can afford to purchase more. On the other hand, if income declines, so does the demand for a commodity.

**3. Related Product Prices:** There are two categories of related products: complements and substitutes. You can use substitute products interchangeably. Tea and coffee are two examples of replacement goods. Coffee can be substituted for tea when the price of tea is higher. Similar to how bread and butter or gasoline are demanded together, complementary items are. Demand for a good decrease when its substitute's price decreases, and increases when its substitute's price rises. When two items are complimentary, the demand for either one is impacted by the price change of the other. For instance, if two-wheeler demand declines.

**4. Consumer Taste and Preferences:** The significant aspects that influence the demand for a product. When tastes and preferences are positive, there will be a high demand for a certain good. On the other side, demand declines when a good is no longer in demand or when people's tastes and preferences change[4], [5].

### **Demand Curve and Demand Schedule**

A demand schedule is a table that lists the various amounts of an item that would be demanded at various prices. It specifies the quantity of a good that will be acquired at various prices. The table clearly shows that at an apple price of Rest. 8/-, the customer wants 5 apples, and at a price of Rest. 2/-, the consumer wants 10 units. Price and quantity demanded are therefore inversely related. We can calculate a person's demand curve using the demand schedule mentioned above. A demand schedule is graphically represented by the demand curve. Apple prices are plotted along the Y-axis, and demand is plotted along the X-axis. The various combinations of price and quantity desired are A, B, C, and D. The demand curve d, which slopes downward and to the right when these points are connected, shows an inverse relationship between price and quantity demanded.

### **Legal Ordinance**

The functional link between a good's price and the quantity demanded is expressed by the law of demand. One of the most significant laws of economic theory is this one. This law states that, other things being equal *ceteris paribus*, if the price of a good decreases, the quantity requested will increase, and vice versa, if the price of the good increases, the quantity demanded will decrease. Price and quantity demanded are therefore inversely related. As a result, when the price of one apple drops from Rest. 4 to Rest. 2, we purchase more units. Only when the requirements listed below are satisfied does the law of demand apply. This is what the law of demand presupposes:

1. Consumers' incomes remain stable. The law will not be upheld whether consumer income rises or falls.
2. People's preferences and tastes do not change.
3. Prices of alternatives and complements remain constant.

## **II. DISCUSSION**

Consumer demand increases when prices are lower and vice versa. Displays the demand curve obtained from this timetable. Quantity is measured along the x-axis, and the price of the commodity is measured along the y-axis. The curved' falls downhill from left to right when different price and quantity demanded points are joined together. The demand curve refers to this. Price and quantity demanded are clearly inversely connected, as seen by the demand curve. Demand increases as price decreases, and it decreases as price increases. It should be emphasized that we have assumed other factors" to be constant in this situation. The law of demand will be misrepresented by any changes in these parameters, including tastes, fashion, income, or prices of linked goods, among others. In that situation, the demand curve won't function as previously described. For instance, demand won't decrease if consumer income increases at the same time that product prices are rising. Instead, it might rise. When our income likewise rises, we are unconcerned about rising product prices. The Law of Demand operates because [6], [7].

Generally speaking, the demand curve slopes rightward and downward. This occurs as a result of the law of diminishing marginal utility in action. New demand is produced when a commodity's price falls.

Moreover, repeat customers purchase more. Some people will choose to buy the specific product now that it is less expensive than other commodities. The demand curve must slope downward if the law of diminishing marginal utility is valid. This is because an increase in demand brought on by a decrease in the price of a commodity can only be represented by a demand curve that slopes downward. Furthermore, people's real income rises when the price of a commodity declines. In other words, people can now spend the same amount of money on more goods and services. It's known as the income impact. Likewise, when an item is less expensive, it frequently replaces more expensive alternatives. It's known as the substitution effect. When a commodity's price drops, both the income effect and the substitution effect combined improve customers' ability to purchase more of it. Another explanation for a downward sloping demand curve is that when a good or service is less expensive, more or less urgent uses can be found for it. Additionally, this increases demand when prices drop [8], [9].

### **Absences from the Law of Demand**

The law of demand has a few exceptions. It refers to situations in which the law is inapplicable. Which are:

1. Some products are referred to as Giffen items. The law of demand does not apply in the case of such items. According to Sir Francis Giffen, when Irish potato prices rose during difficult economic times, people reduced their expenditure on other goods and increased their spending on potatoes. They were no longer able to afford meat and other items because of the high prices of potatoes and the stagnant growth in their financial incomes. Therefore, they had to eat more potatoes to stay alive. In other words, when potatoes' costs rose, people demanded more of them and vice versa. It's known as the Giffen Paradox.
2. According to Torstein Veblen, the demand curve does not slope downward in the case of conspicuous consumption. People occasionally purchase goods to demonstrate their social rank. They believe that the ownership of such commodities may elevate the holder's social status. Diamonds, other valuable stones, and other items make up these goods. To demonstrate their status as members of an exclusive class, the wealthy class purchases these items at exorbitant costs. In addition, see the comment about Veblen commodities at the end of this chapter.
3. A product whose quality is determined by its high price does not also fall under the law of demand. Some consumers purchase more of a commodity at high prices than at lower prices because they believe high prices are superior to reduced prices. People act in such a manner due of their blatant ignorance.
4. Another exception to the law of demand is speculation, which is the conjecture or prediction of a future event and taking appropriate action. People will typically purchase more of a commodity at a higher price than they did at a lower price if the price is rising and they anticipate that the price will continue to rise. It has been noted that when edible oil prices increased recently, some consumers bought more of it in anticipation of rising prices in the future.

### **Changes and Movement in the Demand Curve**

When studying demand theory, it is crucial to understand the difference between movement along the demand curve and alterations in the demand curve. When a good's price changes while other factors stay unchanged, the demand curve moves along. Another name for this is a variation in the quantity requested. That is a shift in demand brought on by a change in a commodity's price, all else being equal. In other words, the demand curve remains the same; only the equilibrium point on the demand curve is altered when the demand increases owing to an increase or drop in the price of an item. This is referred to as demand extension and contraction. Therefore, it is argued that demand has expanded when the quantity of an item is increased only as a result of a price decrease. And because prices have increased, less is being demanded; this is known as a contraction in demand.

Demand curve DD is drawn while holding other variables like tastes, income, and the price of associated commodities constant. At price OQ, demand for the good increases and the equilibrium point moves to B. Only the equilibrium position shifts from B to C if the price drops to OP, the quantity requested rises to OS, but the consumer stays on the same curve DD. Price increases to OR, which

causes demand to decrease to ON and causes the equilibrium position to shift to the left from B to A. This is referred to as demand contraction. Only price changes for a commodity cause an increase or decrease in demand; all other factors remain constant. Let's now explain why the demand curve has changed. When additional factors, not just the price of the item, change, the demand curve either moves to the right or left. Demand might increase or drop depending on where the demand curve shifts as a result of these changes. When the demand curve goes higher or to the right as a result of changes in variables like tastes, fashion, the cost of associated goods, income, etc., an increase in demand is said to have occurred. Similar to this, demand decreases when there is less demand at the same price due to changes in other factors. The demand curve is moved to the left in this instance. Thus, the following things contribute to the rise in demand:

1. Preferences and taste are more in line with the good.
2. The consumer's income rises.
3. The cost of alternatives has increased.
4. Complementary things are now less expensive.
5. People's propensity to consume has increased.
6. There are more consumers now.

Similar to how demand may decline for the reasons listed below:

1. Fashion, taste, and preferences do not favor the good.
2. Consumers' incomes have decreased.
3. The cost of alternatives has decreased.
4. The cost of ancillary goods has increased.
5. People are now more inclined to save money.

In shifts in the demand curve increases and decreases in demand are depicted. The demand curve at OP prices is denoted by DD. ON amount is purchased at this price. While prices remain unchanged, the demand curve shifts to the left as D" D" when consumer income decreases. Now, the consumer purchases less of the same good, ON. When income increases but prices remain the same, the customer can purchase more, or ON'. In this scenario, the demand curve moves as D'D' to the right.

### **Note Regarding Gaffe Goods**

Geffen products have a favorable price elasticity of demand. We are aware that the price elasticity of demand is generally negative. In other words, when the price rises, the quantity demanded decreases, or vice versa, as the demand for a good or service pulls in the other way. Goods made by Geffen are an exception to this. Demand increases in tandem with price increases, and vice versa. A product must only vary in price in order to change in demand in order to be considered a true Geffen well. Geffen commodities are named after Sir Robert Geffen, who Marshall credited in his book Principles of Economics as the originator of this concept.

Marshall's classic illustration involves low-quality staple foods, whose demand is fueled by poverty and prevents consumers from affording higher-quality items. As the cost of the inexpensive staple increases, people are forced to eat more of it since they can no longer afford to supplement their diet with healthier foods. As Mr. Geffen has pointed out, a rise in the price of bread makes such a large drain on the resources of the poorer laboring families and raises so much the marginal utility of money to them, that they are forced to curtail their consumption of meat and the more expensive farinaceous foods: and, bread being still the cheapest food which they can get and will take, they consume more, and not less of it," wrote Marshall in the 1895 edition of Principles of Economics. Three prerequisites must be met for this circumstance to occur:

1. The good in question must be inferior.
2. There must be no close substitutes.
3. The good must account for a sizeable portion of the buyer's money.

This list outlines required and sufficient criteria if precondition no. 1 is altered to the good in question must be so inferior that the income effect is greater to the substitution effect." An example of this is shown in the diagram above. Beginning with line segment MN (where M = total available income divided by the price of commodity Y, and N = total available income divided by the price of commodity X), the consumer has the option of spending their income on either commodity Y or commodity X. The consumer's budget constraint is represented by the line MN. The ideal mixture of purchases for this person is point A, given their preferences, as shown by the indifference curve IC<sub>0</sub>. There will be two repercussions if the price of commodity X decreases. The substitution impact, which is caused by changing relative pricing in favor of commodity X, will result from the lower price. This is demonstrated by moving from point A to point B along the indifference curve pivoting the budget restriction about the initial indifference curve.

Additionally, as a result of the price reduction, consumers have more purchasing power, a phenomenon known as the income impact a shift of the budget restriction outward. The transition from the dotted line to MP where P represents income divided by the new price of commodity X serves as an illustration of this. The amount requested of commodity X increases from point A to point B due to the substitution effect, but the income impact decreases the quantity demanded from point B to point C. The end result is a decrease in the quantity desired from X<sub>A</sub> to X<sub>C</sub>, which by definition makes commodity X a Giffen good. A Giffen good is any good where the income effect outweighs the substitution effect. The idea that rice and noodles are Giffen products in some parts of China was made in a preliminary working paper by Robert Jensen and Nolan Miller from 2002. Quinine water has been shown to be beneficial for lab rats by Battalio, Kael, and Knout in 1991. Some high-end products, including pricey French wines and perfumes favored by celebrities, are occasionally touted to be Giffen products. Because they are no longer seen as rare or high-status products, it is asserted that lowering the price of these high-status goods can reduce demand. However, a considerable price reduction drastically alters how such high-status commodities are regarded. Because the Giffen goods study presupposes that only the consumer's income or the relative price level changes, not the actual character of the good, they are not eligible to be termed Giffen goods. A product should be considered a Veblen good if a price adjustment alters how buyers perceive it.

### Good Veblen

A commodity is a Veblen good if consumers choose to purchase it more as a result of rising prices. There is no requirement in the definition that any Veblen goods actually exist. It is argued that some high-status commodities, such as pricey wines and perfumes, are Veblen goods because when their costs are reduced, consumers become less inclined to purchase them because they are no longer regarded as exclusive or high-status items. The economist Torstein Veblen, who pioneered the ideas of ostentatious consumerism and status-seeking, is remembered as the creator of the Veblen effect. The Veblen effect is one of a group of theoretically conceivable anomalies in the microeconomics general theory of demand. Other consequences in this area include:

1. The snob effect, which states that preference for good declines as the number of purchasers rises;
2. The bandwagon effect, which states that preference for good rises as purchasers increase; and
3. The counter-Veblen effect, which states that preference for good rises as its price declines. Lea introduced the counter-Veblen effect, a less well-known notion. Lea, S. E. G., Tarp, R. M., and Wesley. Cambridge: Cambridge University Press. The person in the economy.

These impacts only speak to preferences or propensities to buy, not how actual demand for the good the number of units purchased would change as the price changes. The range of alternatives that are offered, their costs, and their substitutability for the target commodities will determine the real impact on demand. Because demand theory typically implies that preferences are unrelated to price or the quantity of units supplied, the effects are outliers. As a result, they are referred to as interaction effects as a whole.

**Application:**

The following are some crucial instances where the law of demand is used:

1. **Price Strategies:** Companies base their price decisions on the law of demand. Businesses can choose the best pricing levels to increase sales and revenue by realizing that consumers often desire more of a product when its price is lower. They can perform a price elasticity analysis to gauge how responsive demand is to price changes and come to wise pricing recommendations.
2. **Market Analysis:** Market behavior and dynamics are examined using the law of demand. Economists can determine the overall demand elasticity in a market by observing variations in price and quantity demanded. Understanding consumer preferences, market competition, and possible market shifts are all aided by this.
3. **Policy Formulation:** To create and evaluate different economic policies, policymakers use the law of demand. For instance, policymakers take into account the price elasticity of demand when deciding whether to apply taxes or subsidies in order to gauge the effect on consumer behavior and overall market equilibrium. They can examine how laws and price controls affect market outcomes by applying the law of demand to the situation.
4. **Demand Forecasting:** Demand forecasting, which is crucial for production planning, inventory control, and strategic decision-making, is built on the law of demand. Businesses and decision-makers forecast how pricing adjustments may affect future consumer demand using past data and market patterns.
5. **A Significant:** Part of aggregate demand analysis in macroeconomics is the law of demand. It aids economists in comprehending how shifts in the general level of prices impact consumer spending and the state of the economy as a whole. For analyzing business cycles, inflation, and monetary policy, it is essential to have this understanding.
6. **Consumer Behavior Analysis:** The law of demand is the foundation of this field of study. Economists can learn more about how customers choose products, allocate their budgets, and react to price changes by studying price sensitivity and demand elasticity. Understanding consumer preferences, market segmentation, and the effects of marketing efforts are all aided by this information.

**III. CONCLUSION**

According to the law of demand, which is a cornerstone of economics, there is, *ceteris paribus*, an inverse relationship between the price of a commodity or service and the amount required. Assuming all other parameters stay constant, the quantity requested of a product drop as its price rises, and vice versa. The fundamental tenet of human behavior is that when a commodity or service's price is low, customers are more likely to purchase it, whereas when costs are high, they are more likely to cut back on their consumption. The demand curve's decreasing slope displays this relationship. Numerous implications of the rule of demand exist for both market behavior and economic study. First off, it assists companies in determining how receptive customers are to price adjustments, allowing them to optimize revenue and develop pricing plans. The law of demand can also be used by policymakers to assess how taxes, subsidies, and other price-related policies affect consumer behavior and market results.

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