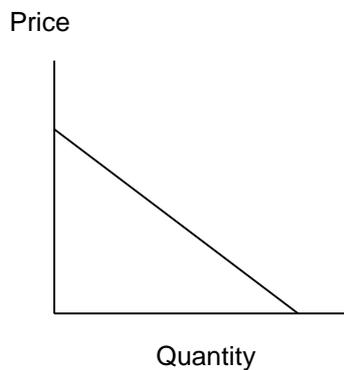


### Law of Demand\*

a consumer's demand for a good is inversely related to the price of the good.

If price of a commodity falls, its quantity demanded increases and if price of the commodity rises, its quantity demanded falls.

#### Demand curve:



### Exception to law of demand

1. **Giffen goods** -Giffen goods are special type of inferior goods (like food items e.g. Rice, Flour, Salt, Jowar and Bajra etc.) which do not follow law of demand as their demand rises when their price rises because people start buying more of these goods thinking of shortage and further increase in price in future.

2. **Status Symbol Goods/Veblen Goods** -Some goods are used by rich people as status symbols, e.g. diamonds, designer jewellery, luxury cars etc. The higher the price, the higher will be the demand for these goods.

When price of such goods falls, these goods are no longer looked at as status symbol goods and, therefore, their demand falls.

3. **Necessities** -Commodities such as medicines, salt, wheat etc. do not follow law of demand because we have to purchase them in minimum required quantity, whatever their price may be.

4. **Goods Expected to be Scarce** -When the buyers expect a scarcity of a particular good in near future, they start buying more and more of that good even if their prices are rising. For example, during war, famines etc. people tend to buy more of some goods even at higher prices due to fear of their scarcity in near future.

### Assumptions of law of demand

In law of demand all other factors except price of the commodity are assumed to be constant. Following are the assumptions:

1. Prices of substitute goods do not change. 2. Prices of complementary goods do not change. 3. Income of the buyer remains the same. 4. There is no change in tastes and preferences of the buyer.

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Which one of the following is not an assumption in the law of demand?

- a) There are no changes in the taste and preferences of consumers
- b) Income of consumers remains constant
- c) **Consumers are affected by demonstration effect**
- d) There are no changes in the price of substitute goods.

### 2. Price of related goods

### Related goods

The demand for a commodity is also influenced by the prices of its related goods. Related goods can be of two types