MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- Meaning and Assumptions of Law of Demand

Meaning and Assumptions of Law of Demand.

Law of demand. The law of demand explains negative relationship between the price and quantity demanded of a commodity, assuming other factors affecting demand to be constant According to the law, "other things being equal, quantity demanded of a commodity is inversely related to the price of the commodity. In other words, when price of a commodity rises, quantity demanded of the commodity falls and when price falls, the quantity demanded of the commodity rises.

i.e.

$\uparrow P_x \rightarrow Q_x$

$\downarrow P_x \rightarrow TQ_x$

According to Marshall,

"Law of Demand states that amount demanded increases with a fall in price and diminishes when price increases.

Law of demand states that other things being equal, there is negative relation between price of the commodity and its quantity demanded by an individual household in a market i.e., when P rises Q D_x falls and when P_x falls Q D_x rises.

Other things being equal Assumptions of the law

$$D_x = f(P_x\ P\ Y, T\&P, E)$$

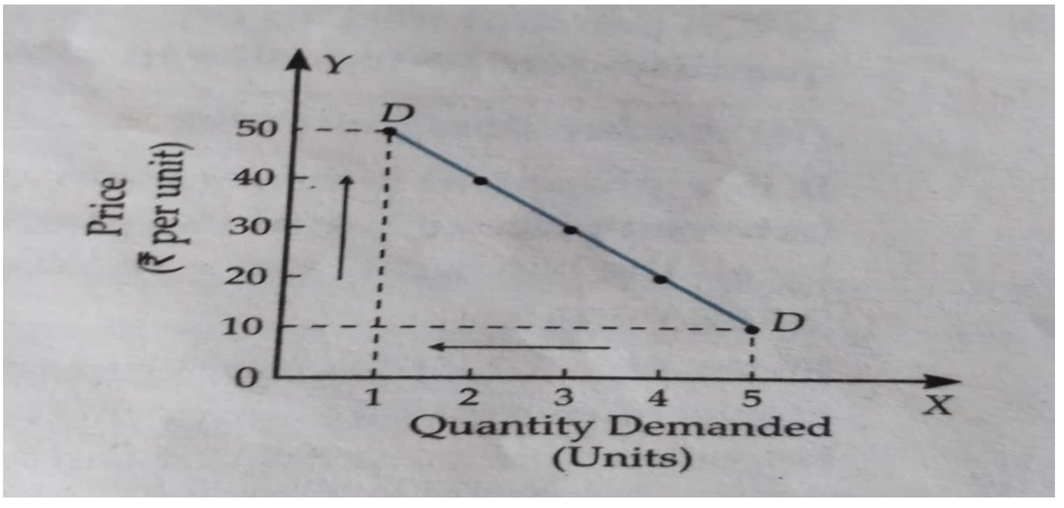
There is no change in price of related goods (P,),There is no change in income of a consumer (Y),There is no change in tastes and preferences of a consumer T&P .There is no change in expectations about price change in future E.

Demand Schedule- It is a tabular presentation of negative relation between price of x and quantity demanded of x by an individual household (consumer), other things being equal.

PRICE OF X PER UNIT	QUANTITY DEMANDED OF X UNIT
10	5
20	4
30	3
40	2
50	1

The above Table indicates inverse relation between price and quantity demanded of the commodity. It shows that when price of x is 10, the quantity demanded is 5 unit, as price rises to 50 per unit, the quantity demanded falls to 1 unit.

Demand Curve-



Demand Curve-It is a graphical presentation of individual demand schedule i.e., the negative relation between Px and QDx by an individual household (consumer), other things being equal. Figure shows negative slope of demand curve DD which means that quantity demanded falls from 5 units to 1 unit when price rises from 10 to 50 per unit.