WHY DOES DEMAND CURVE FOR A COMMODITY SLOPE DOWNWARD?

MICROECONOMICS - I

INTRODUCTORY ECONOMICS I

WHY DOES DEMAND CURVE FOR A COMMODITY SLOPE DOWNWARD?

MODULE II

B.A. Degree Programmes

Calicut University

Highly Useful for both Regular & Distance Streams

Why does the demand curve slope downward? OR

Why the demand curve slopes downward to the right?

Major Reasons for the downward slope of demand curve

The demand curve for a normal good slopes downward from left to right – Key Reasons

- Operation of the law of diminishing marginal utility
- Income effect
- Substitution effect
- Change of the number of uses
- Change of the number of buyers

Slope of the Demand Curve

Since slope is defined as the change in the variable on the y-axis divided by the change in the variable on the x-axis, the slope of the demand curve equals the change in price divided by the change in quantity.

Slope of the Demand Curve

- Thus, the slope of a demand curve is ΔP/ΔQ.
- The slope of a curve refers to its steepness indicating the rate at which it moves upwards or downwards.

1. Operation of the law of diminishing marginal utility

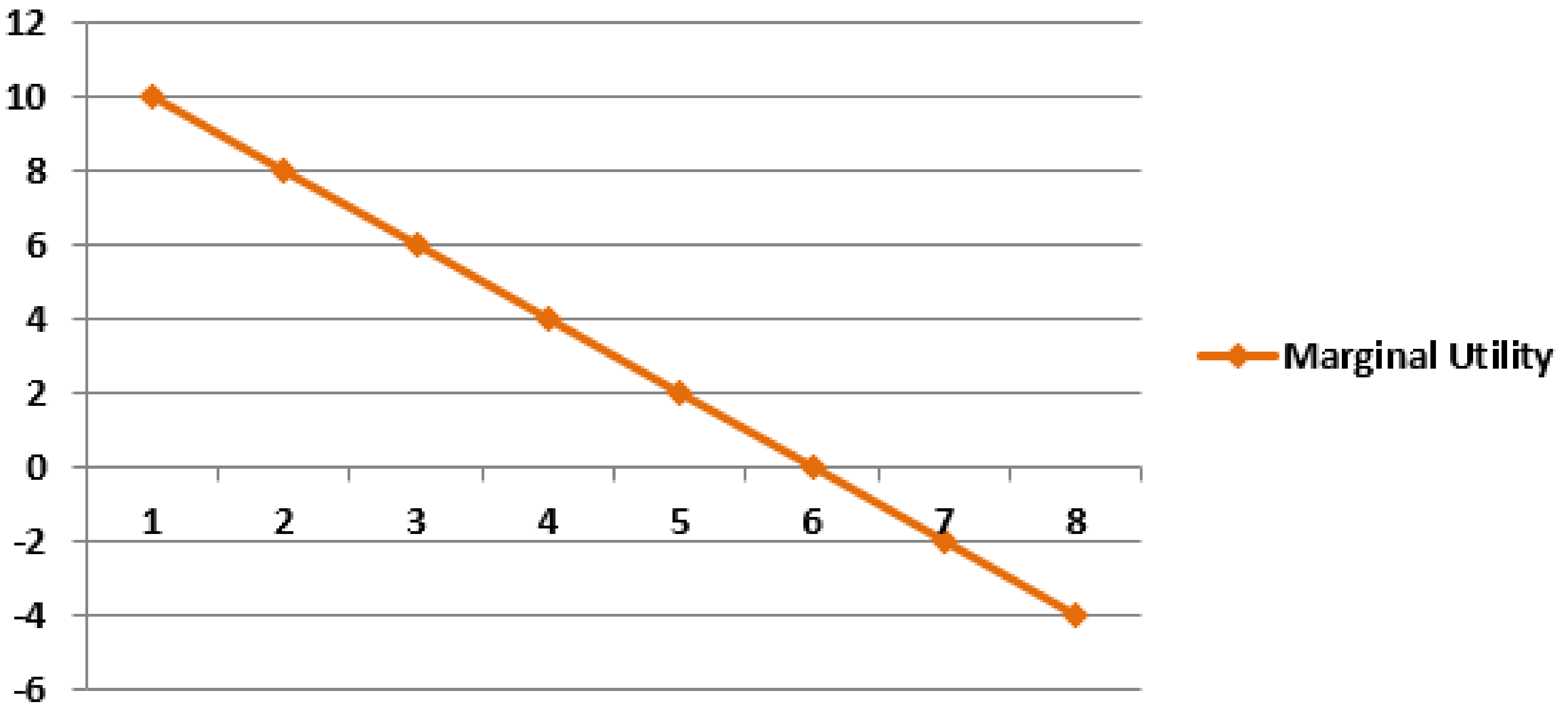
- As the consumption of a commodity increases marginal utility gradually falls.

- This means that the consumer will be ready to pay less and less price to acquire every additional unit that he intends to buy.

- He will buy more and more units, if and only if the price of the commodity falls.

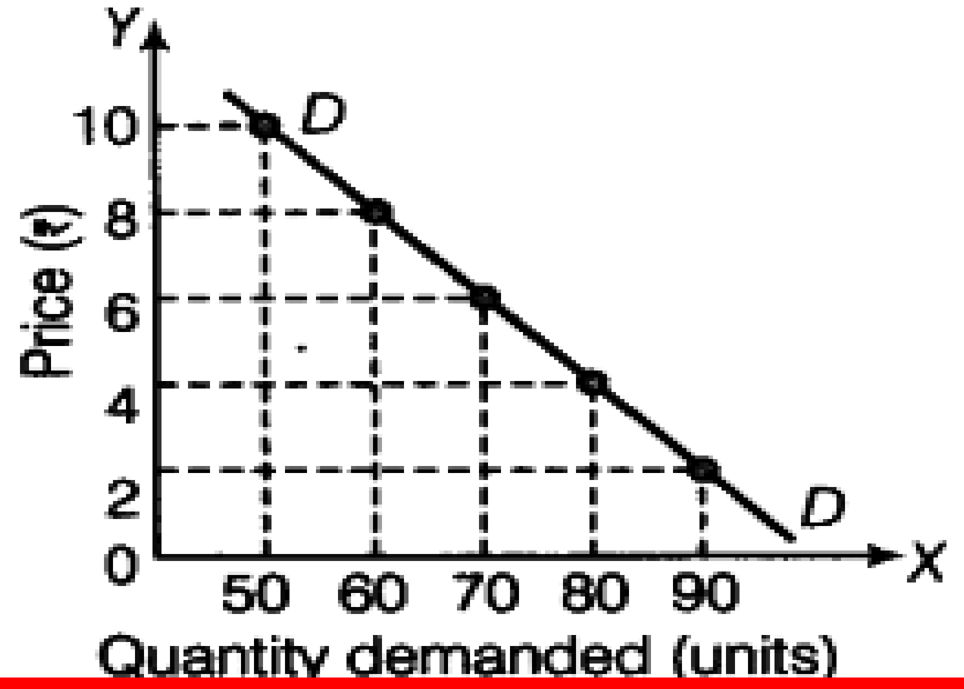
Diminishing Marginal Utility

It states that the amount of satisfaction provided by the consumption of every additional unit of a good decrease as we increase the consumption of that good.



Demand schedule

Price per unit (₹)	Quantity demanded (units)
10	50
8	60
6	70
4	80
2	90



R.G.D.Allen

J.R.Hicks

Alfred Marshall

July 26, 1842 – July 13, 1924

2. Substitution effect

- The substitution effect refers to the substitution of one product for another resulting from a change in their relative prices.
- The substitution effect of a fall in the price of a commodity is to induce consumers to substitute other goods for the more expensive good in order to acquire the desired satisfaction as cheaply as possible.

3. Income effect

- The income effect refers to changes in a consumer's real income resulting from a change in product prices.
- The fall in price in effect leaves more income with the consumers to spend.
- Enhance the purchasing power of the consumers.

When a consumer's money income is constant, a fall in the price of a commodity is equivalent to an increase in his real income.

4. Change of the number of uses

- When the price of a commodity falls, it can be used for different purposes.
- For example, a fall in the price of electricity or steel increases the number of its uses. As a result the demand for electricity or steel rises.

5. Change of the number of buyers

- **The lowering of prices brings in new buyers and the raising of prices reduces the number of buyers.**
- **These buyers are also known as marginal buyers.**
- **The consumers who were not able to consume the commodity before the price reduction start consuming it.**

Thorstein Veblen, American economist

Veblen good

A Veblen good is a type of luxury good for which the demand for a good increases as the price increases, in apparent contradiction of the law of demand, resulting in an upward-sloping demand curve.

Sir Robert Giffen, 1837-1910

A **Giffen** good is a low income, non-luxury product for which demand increases as the price increases and vice versa. A **Giffen** good has an upward-sloping demand curve which is contrary to the fundamental laws of demand which are based on a downward sloping demand curve.