

Q. Why does demand curve slopes downward from left to right?

OR  
Explanation of Law of Demand.

Downward sloping demand curve shows inverse relationship between price & demand. Now the question arises - why does the law of demand operate? Why does a consumer buy more at a lower price than at a higher one? There are following reasons for the operation of law

(i) Law of diminishing marginal utility - The law of demand operates because the law of diminishing marginal utility comes into force when a consumer buys additional quantities of a particular commodity. A consumer is influenced by the fact that additional expenditure on a given commodity brings him less satisfaction as he buys additional quantities of it. This is bound to limit his purchases of the commodity unless its price is also correspondingly reduced. Thus a seller has to lower its price to a large extent, affects the



## law of demand.

(ii) Increase in Purchasing Power or Income Effect  $\rightarrow$  A fall in the price of a commodity results in a rise in the consumer's real income. He can therefore, purchase more of it. On the contrary, a rise in the price of commodity amounts to fall in the real income. He is therefore, forced to purchase less of it. Let us suppose that the price of 'X' commodity falls down. After having bought his real quantity the consumer is still left with some money, a part of which he is likely to spend on buying additional quantities of commodity.

(iii) Substitution effect  $\rightarrow$  The fall in the price of a commodity unaccompanied by the fall in the prices of its substitutes, makes it more attractive to the consumers who now substitute it for the latter, leading to an extension in its demand. The extension in the demand of the commodity in question can be attributed to the substitution effect. Conversely a rise in the price of the commodity, while the price of its substitute remains constant, will make it unattractive