Demand Curve Essay, Research Paper

Demand is “the quantity of a commodity that will be required at any given price over some given period of time”. “For the majority of the goods and services, experience shows that the quantity demanded will increase as the price falls.” (Stanlake 155) This characteristic can be shown by a demand curve. A demand curve is a graphical representation of the data in table with values of demand called a demand schedule. A good that is in greater demand do to income increases is known as a normal good. A inferior good is a good that is in less demand even though the income increases. When this situation occurs the demand curve is positive sloping. A giffen good is a special type of inferior good where demand increases when price increases. The graph below is a sample demand curve, where the demand schedule for the quantity of toilet paper demanded is graphed.

From this graph we can determine how many rolls of toilet paper will be purchased at what price. As can be seen from looking at this graph, it is negatively sloping. As one variable gets larger the other will become smaller, or when the price drops more is purchased. The whole demand curve “theory” is based on human behavior. It is logical to say that people will purchase more of a product when the price is cheaper.

In reality, if the price of a good rises the income (or assets) of the consumer will decrease. The people would not be able to buy the same goods as before because they cost more. Consumers can do two things; if the good is a normal good (previously defined), they would buy less of the good; if the good is an inferior good, they would buy more of the good. Thus, the income effect can be defined in this statement: When the price of a good falls, the expected outcome would be that the consumers would buy more because they have the money and can afford to buy more.

The slope of the demand curve can be explained in terms of the income and substitution effects.

If the price of a good falls consumers would buy more of that good and less of others. If the price of a good rises people would buy less of that good and more of another because the good is more expensive than others. The outcome of these would be a switching of purchases towards the cheaper product. When there is another similar good that is in price competition with an existing good, it is known as the substitution effect. Most demand curves slope downwards from left to right and therefore obey the general law that more goods would be demanded at lower prices. However there are certain demand curves that do just the opposite and slope in the other direction, which will be explained later.

For a normal good the substitution and income effects both go in the same directions. A rise in the price reduces in the quantity demanded because the price has risen. For a inferior good, the substitution effect and income effect go in opposite directions. Although, the substitution effect is stronger than the income effect because with a inferior good, when the price rises it leads to a fall in demand. When a good changes in price, the quantity demanded will be changed by the sum of the substitution effect and the income effect.

There are, however, cases that do not follow this path of the demand curve. From what had been previously explained, there have only been demand curves with a downward slope. This is not the case with all demand curves. There are a few cases that do the opposite and have an upward slope. An example of this graph is shown below.

The most important example of this exception in demand curves is provided by the demands for food such as bread, rice, corn, and potatoes in countries with very low living standards. Most of the families income would go towards food. In conditions like these, an increase in the price of a food could lead to an increase in the quantity demanded. If the families income remains the same then people with have to buy the same amount of food products for their family to survive. They would have to sacrifice money from being spent on other items. The amount of money remaining for the purchase of items other than food would be very small. Consumers may consider using the remaining income to buy more necessary foods because of the better value.

A second example of exceptional demand curves are presented by goods which have a elitist appeal. Some wealthy people buy things because they are expensive. Goods bought for pretentious reasons, a fall in price may cause them to loose it’s appeal and the quantity demanded might fall. In this case, these goods would not be a very effective way of showing off ones wealth.