

Causes of Downward Sloping Demand Curve

- 1) The Law of demand is based on the Law of Diminishing Marginal Utility. According to this law, when a consumer buys more units of a commodity, the marginal utility of the commodity continues to decline. Therefore, the consumer will buy more units of that commodity only when its price falls. This proves that the demand will be more at a lower price and it will be lesser at a higher price. That is why the demand curve is downward sloping.
- 2) When the price of a commodity falls new consumers start consuming it, as a result the demand increases .On the contrary, with the increase in the price of the product, many consumers will either reduce or stop its consumption. This will result in the fall of demand. Thus, due to the price effect consumers consume more or less of a commodity, the demand curve slopes downward.
- 3) When the price of a commodity falls the real income of the consumers increases because he has to spend less in order to buy the same quantity. On the contrary, with rise in the price of the commodity, the real income of the consumer falls. This is called the income effect. With fall in price of the commodity the consumer buys more of it and also spends a portion of the increased income in buying other commodities. For instance with the fall in price of milk, a person will buy more of it and at the same time he will increase the demand for other commodities .On the other hand with the increase in price of milk he will reduce its demand .The income effect of a change in the price of an ordinary commodity being positive, the demand curve slopes downward.
- 4) The other effect of a change in the price of a commodity is the substitution effect. With the fall in the price of a commodity, the price of substitute remaining the same, consumers will buy more of this commodity rather than the substitute. As a result the demand will increase .On the contrary, with the rise in the price of the commodity under consideration its demand will fall, given the price of the substitute. For instance, with the fall in price of tea, the price of coffee

remaining unchanged the demand for tea will increase. On the contrary with the increase in the price of tea the demand for tea will fall and the demand for coffee will increase.

- 5) There are different uses of certain commodities and services that are responsible for the negative slope of the demand curve. With the increase in the price of such products, they will be used only for more important uses and their demand will fall. On the contrary, with the fall in price, they will be put to various uses and their demand will rise. For instance, with the increase in electricity charges, power will be used primarily for domestic lighting, but if the charges are reduced, people will use power for cooking, heaters etc
- 6) There are different income groups in every society but a majority is in the low income group. Ordinary people buy more when price falls and less when price rises. The rich do not have any effect on the demand curve because they are capable of buying the same quantity even at a higher price.
- 7) There is a tendency to satisfy unsatisfied wants. Each person has some unsatisfied wants. When the price of a good such as apple falls, the demand for it will increase as people who were earlier not able to buy apples can now buy. Due to this behaviour of human beings, the demand curve slopes downward.