

## **Law of Demand**

### **Exceptions to law of demand**

Generally, the amount demanded of good increases with a decrease in price of the good and vice versa. In some cases, however, this may not be true. Such situations are explained below.

1. **Giffen goods:** these are those inferior goods on which the consumer spends a large part of his income and the demand for which falls with a fall in their price. The demand curve for these has a positive slope. The consumers of such goods are mostly the poor. a rise in their price drains their resources and the poor have to shift their consumption from the more expensive goods to the giffen goods, while a fall in the price would spare the household some money for more expensive goods. which still remain cheaper. These goods have no closely related substitutes; hence income effect is higher than substitution effect.

**2. Commodities which are used as status symbols:** Some expensive commodities like diamonds, air conditioned cars, etc., are used as status symbols to display one's wealth. The more expensive these commodities become, the higher their value as a status symbol and hence, the greater the demand for them. The amount demanded of these commodities increase with an increase in their price and decrease with a decrease in their price. Also known as a Veblen good. (In economics, Veblen goods are a group of commodities for which people's preference for buying them increases as their price increases, as greater price confers greater status, instead of decreasing according to the law of demand.)

**3. Expectations regarding future prices:** If the price of a commodity is rising and is expected to rise in future the demand for the commodity will increase.

**4. Emergency:** At times of war, famine etc. consumers have an abnormal behaviour. If they

expect shortage in goods they would buy and hoard goods even at higher prices. In depression they will buy less at even low prices.

**5. Quality-price relationship:** some people assume that expensive goods are of a higher quality than the low priced goods. In this case more goods are demanded at higher prices.