

Law & Nature of Demand - examples from Indian companies

Law of Demand is a fundamental concept in economics that describes the relationship between the price of a product or service and the quantity demanded by consumers, all other factors being equal. It states that, all else being equal, as the price of a good or service decreases, the quantity demanded increases, and conversely, as the price increases, the quantity demanded decreases.

1. Inverse Relationship: The Law of Demand is characterized by an inverse relationship between price and quantity demanded. When the price of a product falls, consumers generally buy more of it, and when the price rises, they buy less.

Example 1 - Mobile Phones in India: Consider the Indian smartphone market. When Xiaomi entered the market with its competitively priced smartphones, the demand for its products surged. As Xiaomi offered feature-rich phones at lower prices compared to competitors like Apple and Samsung, more consumers in India chose Xiaomi, illustrating the Law of Demand in action.

2. Ceteris Paribus: The Law of Demand assumes that all other factors affecting demand remain constant. This simplifying assumption allows economists to isolate the impact of price changes on quantity demanded.

Example 2 - Airline Tickets: Indian airline companies often experience variations in ticket demand based on price changes. If a domestic airline lowers ticket prices during the off-season while keeping all other factors like flight schedules and services constant, travelers are more likely to choose that airline over others due to the lower price.

3. Exceptions and Factors: While the Law of Demand generally holds true, there can be exceptions. Several factors can influence demand beyond price, including consumer preferences, income, the prices of related goods, and expectations.

Example 3 - Luxury Cars: In the Indian luxury car market, higher prices for premium brands like Mercedes-Benz and BMW do not necessarily lead to lower demand. This is because luxury cars are often seen as status symbols, and consumers may be willing to pay more for prestige and superior quality.

4. Demand Curve: The relationship between price and quantity demanded can be graphically represented using a demand curve. The demand curve slopes downward from left to right, illustrating the Law of Demand.

Example 4 - Fast Food Chains: Fast-food companies like McDonald's and KFC in India may introduce value meal options with lower prices. As the price decreases, the quantity demanded increases, resulting in a downward-sloping demand curve for these offerings.

5. Price Elasticity of Demand: Price elasticity measures the responsiveness of quantity demanded to changes in price. If demand is elastic, a small change in price leads to a proportionally larger change in quantity demanded, and vice versa for inelastic demand.

Example 5 - Budget Smartphones: Indian consumers are highly price-sensitive when it comes to budget smartphones. Even a slight decrease in the price of budget smartphone models can lead to a substantial increase in sales, indicating elastic demand for these products.

So, the Law of Demand is a foundational principle in economics that reflects the inverse relationship between the price of a product or service and the quantity demanded by consumers in Indian markets. While it generally holds true, it is essential to consider other factors that can influence demand and recognize that there can be exceptions to this law, especially in cases involving luxury goods or unique market dynamics.