



# SNS COLLEGE OF TECHNOLOGY

## An Autonomous Institution

### Coimbatore-35



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

## Department of Automobile Engineering

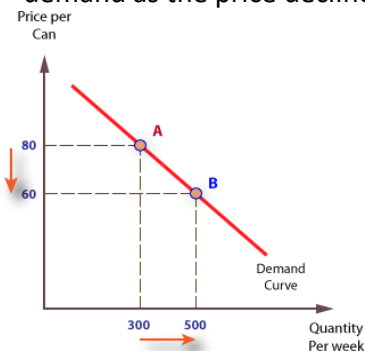
III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

### UNIT-2

#### Demand Curve:

The demand curve is a visual form of the demand schedule. Economists depict the demand schedule on a two-dimensional graph consisting of a vertical axis representing price and a horizontal axis representing quantity demanded. The vertical axis displays different price levels from highest to lowest, while the horizontal axis displays different levels of demand. The apex of the vertical and horizontal axis has a value of zero for both quantity and price. Mankind notes that the demand curve for most products slopes downward indicating an increase in demand as the price declines.



#### Law of demand

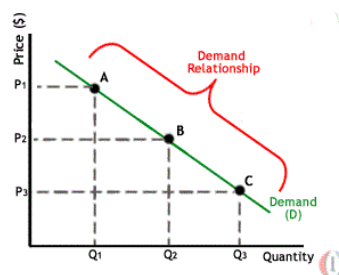
A microeconomic law states that all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa. The law of demand says that the higher the price, the lower the quantity demanded, because consumers' opportunity cost to acquire that good or service increases and they must make more trade offs to acquire the more expensive product.

### Assumptions:

1. Tastes and preferences of the consumer remain constant.
2. No change in the income of the consumer.
3. Prices of related goods do not change.
4. Consumers do not expect any change in the price of the commodity in the near future.

### BREAKING DOWN 'LAW OF DEMAND'

The chart below depicts the law of demand using a demand curve, which is always downward sloping. Each point on the curve (A, B, C) reflects a direct correlation between quantity demanded (Q) and price (P). So, at point A, the quantity demanded will be  $Q_1$  and the price will be  $P_1$ , and so on.



The law of demand is so intuitive that you may not even be aware of all the examples around you.

When shirts go on sale, you might buy three instead of one. The quantity that you demand increases because the price has fallen.

When plane tickets become more expensive, you're less likely to travel by air and more likely to choose the less expensive options of driving or staying home. The amount of plane tickets that you demand decreases to zero because the cost has gone up.

The law of demand summarizes the effect price changes have on consumer behavior. For example, a consumer will purchase more pizzas if the price of pizza falls. The opposite is true if the price of pizza increases. John might demand 10 pizzas if they cost \$10 each, but only 7 pizzas if the price rises to \$12, and only 4 pizzas if the price rises to \$20.

The law of demand is one of the most fundamental concepts in economics. It works

with the law of supply to explain how market economies allocate resources and determine the prices of goods and services.