Alexis Franz

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Microeconomics

E-Portfolio Assignment

Demand and Supply

During this online microeconomics course, we learned about many interesting topics that economists study. My favorite topic that we learned about was demand and supply because it is easily relatable to day-to-day life. Generally everyone understands the concept of demand and supply, and how they are related to each other, but learning about it in this class has opened my eyes to how important it is.

Let’s start with demand. Demand is defined as the amount of some good or service consumers are willing and able to purchase at each price. This is important to know because if a product is reasonably priced, then the demand for the product will most likely remain constant. If a product is priced low in comparison to other products that are similar to it, then the demand for the cheaper priced product will increase. Also, if a product is priced on the higher side compared to competitors, than the demand for that specific product will lower. This is the law of demand; the inverse relationship between price and quantity demanded. The demand follows a demand schedule, which is a table that shows the quantity demanded at each price, which leads us to the demand curve. The demand curve shows the relationship between price and quantity on a graph. The curve itself is the demand and a point on the curve is the actual quantity demanded.

Now onto supply. Supply is defined as the amount of some good or service a producer is willing to supply at each price. The law of supply says that a higher price leads to higher quantity supplied and a lower price leads to a lower quantity supplied, making the price and supply directly proportionate, unlike demand and price, which are inversely proportionate. The law of supply also assumes that all other variables that affect supply remain constant. Supply also has its own curve, just like demand, and it is similar in the fact that the curve itself refers to the supply and a specific point on the curve refers to the quantity supplied.

Obviously we don’t live in a perfect world where everything remains constant, and there are always enough products or supplies to satisfy demand. However, there is equilibrium in supply and demand, it is where the two curves intersect on a graph. Equilibrium price is the only price in which the plans of consumers and the plans of producers agree. Then there are times when we run into either excess supply or excess demand. An excess of supply is also known as a surplus, and this is where any above equilibrium prices leads to the quantity supplied exceeding the quantity demanded. There is also the opposite, excess demand, which is also known as a shortage. This is where the quantity demanded exceeds the quantity supplied.

With demand and supply now covered, let’s talk about what shifts the demand and supply for goods and services. There are many factors that could shift the curve. This is where the Latin term ‘ceteris paribus’ comes in. Ceteris Paribus means “other things being equal” and is used in microeconomics to describe the assumption that no other relevant economic factors, besides price, are changing. Also we must take into consideration that households with high incomes create a greater demand at every price. This causes a separation of goods into normal good sand inferior goods. Normal goods are products whose demand rises when income rises and vice versa. Inferior goods are the opposite, where the demand falls when income rises and vice versa. Other factors that would cause a shift in the demand and supply would be peoples tastes/preferences, size of population as well as its composition, and prices of related goods, which brings us to the next subject at hand.

Substitutions are a huge factor in the goods and service industry. Lower prices from competitors can easily cause the demand of the lower priced god or service to rise which then in turn causes the others with higher prices to fall. For example, lawn care services. One provider may offer you a seasonal rate which is cheaper than a weekly rate, although it is more money upfront, you’d be saving money overall. Then we have complementary goods, which are goods that go hand in hand with one another, those such as notebooks and pens/pencils, milk and cereal, or skis and ski boots. These complementary goods demand and supply curves usually fluctuate together.

Other factors that come into play when we talk about demand and supply include price controls, price ceilings, and price floors. Price controls are laws that the government puts into place to regulate prices. Price ceilings are the maximum price that a good or service can be, and price floors are minimum prices, such as minimum wages. Efficiency is also a principal factor when it comes to demand and supply. Demand and supply is an important concept to know, especially for economists, because it helps determine what prices should be and what should be supplied based on the demands.

Reflection

Demand and supply was probably the most interesting topic that we learned about in microeconomics this semester. I found that everything about it was relatable to everyday life. After learning about demand and supply, it makes sense as to why gas prices fluctuate so much, especially during the summer. As well as the prices of most goods remain constant, such as groceries. Now, prices of groceries do fluctuate but not as drastically as gas prices do. It is important to realize why these prices are constantly changing because the economy is constantly changing and prices are always fluctuating due to the demand as well as the supply.