How scarcity and choice impact supply and demand

Did you ever wonder what makes products cost as much as they do and why the cost seems to fall and rise for no particular reason? The truths behind the supply and demand cycle are market factors that affect the price of products which the buyer probably never wonders about. The most important factor is in determining the price of a particular product is the law of supply and demand. The law of supply and demand is the most important elements in the subject of economics. Not only do the two features determine the cost of an item, but also how many items are produced by the manufactures. To understand the connection between supply and demand it is essential to understand each component individually. The following paper will explain the law of supply and demand, and the concept of scarcity and choice. It will also discuss the impact that scarcity and choice have on supply and demand.

The first factor in every supply and demand association is the supply. Supply is defined as the greatest amount of a single item that is accessible in the present market. Supply symbolizes the producer’s behaviors in the marketplace. The relationship among the item’s price and quantity available refers to what is known as the supply relationship. Therefore, price is linked and affects the relationship of supply and demand. (“ Economic”, n. d). For example a manufacture produces a new motor scooter; based on financial and production abilities along with the available materials, the manufacturer can supply 2, 500 pieces. Due to the uncertainty of how the consumer will react towards the price the manufacturer decides to only produce 500 pieces to test the market. The 500 pieces supplied are significantly lower than the manufacturer ability to produce.

The next factor is the theory of supply and demand is demand. Demand is defined as the greatest amount of a certain item that the consumer is willing to buy. Demand represents the behavior of consumers in the marketplace. Demand depends on the consumer is willing to purchase an item the set price. Demand works in a certain way, the greater the cost of an item, the consumers demand will decrease. (Schenk, 2006). For example, a game console had and overall demand of 1, 000 pieces, when the game console was price at $400 the demand was 500 pieces. When the game console's price was lowered to $300 the quantity demand increase to 750 pieces, and when the game consoles price dropped to $200 the quantity demand rose to 1, 000. Consequently, the demand is directed by its connection to the price; as the cost of each game console increased the demand for the consoles decreased.

A major factor that has a significant effect on the role of supply and demand is scarcity. Scarcity refers to the insufficiency shortage of the markets quantity or supply of an item. Scarcity is the primary economic problem of having limitless amounts of human desires and needs, with inadequate recourses. Another factor that impacts the role of supply and demand is choice. Choice relates to the consumers decision in a scarce marketplace. The role of choice arises from scarcity, when an item is limited or unavailable consumers maybe be forced to make a difficult choice. Consumers will decide if they can go without the item, or are willing to pay a higher price for the item due scarcity. (Schenk, 2006). An example of scarcity and choice would be, watermelons, which are occasionally scarce due to the fact they grow in a limited time of year. When the supply of watermelon is limited, they become scarce. If watermelon becomes widely wanted when they are scarce, the demand for watermelons results in an increase. The demand increases because the product is limited, not because the price is low. As a result the consumer is faced with a choice, to decide if they are willing to pay a higher price for the scarce watermelon.

Supply and demand are also affected by many other factors such as nature, government, income, populations, technology, seasonality, and price of materials and input, for example, during super bowl season the price of chicken wings increase significantly. Chicken farm producers increased prices on restaurants due to increased government regulations and increased cost of grain in winter. As a result, restaurants may purchase a lower quantity of chicken wings and increase their price to their customers. (“ Economic”, n. d).

To conclude, explaining the cycle of supply and demand can be simple if one understands the basics, a limited supply which is known as scarcity will increase the demand which results in a higher price and pressure a consumer’s choice. Raised prices, will then provoke the suppliers to produce more which creates a larger supply causing the cost to decrease once again. Ultimately, consumers are responsible for the actions of the market and their decisions are the motivating factors in the economic process of supply and demand.