

# [Various factors price, income, tastes and preference essay](https://assignbuster.com/various-factors-price-income-tastes-and-preference-essay/)

Various factors price, income, tastes and preferences, prices of other goods influence the demand for a particular good. Price changes cause movements along a demand curve.

Price decreases are associated with extensions in the particular quantity demanded. Price increases are associated with contractions in the particular quantity demanded. A change in income, tastes and preferences, prices of other goods will cause a shift in the demand curve itself, with increases or decreases in demand at every possible price. Price changes cause movements along a supply curve. Higher prices are associated with extensions in the particular quantity supplied. Lower prices are associated with contractions in the particular quantity supplied.

A change in either input costs or technology will cause a shift in the supply curve itself, with increases or decreases in supply at every possible price. If the price increases above the equilibrium price, a change will occur due to disequilibrium price. Excess supply will encourage firms to initiate price reductions until demand and supply are harmonized. Any price below equilibrium price, there will also be a disequilibrium price.

Excess demand will encourage firms to initiate price increases until demand and supply are harmonized (Chris, Howard & James, 2001). If the good has other substitutes and price of the good increases, then customers switch to buy its substitute products, so quantity of demand for the good decreases significantly. So, for goods having close substitutes show price elastic demand structure. If the good has no substitutes or distant substitutes, when the price of the good rises, due to unavailability of substitute products still customers become forced to buy the high price good, so quantity demanded for such goods do not show significant drift when price of the good increases. This way, goods having distant substitutes behave as price inelastic.

If the product is a necessary product, even if the price of the product increases still the customers are forced to buy the high price product having no other option. So, for necessary products the quantities of demand do not change significantly even though the price of the product is increased. So, if the product has higher necessity those products behave price inelastically. If the necessity of the product is less and price of the product rises, then people do not buy those products, so quantity of demand of those products diminishes. Thus, products having lower necessity behave price elastically.

ReferencesMulhearn, C. , Vane, H. R. & Eden, J. (2001) Economics for business. Hampshire, New York: Palgrave Publishers Ltd.