

Supply and demand conclusion



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Supply and demand is one of the most fundamental concepts of economics and it is the backbone of a market economy. A market is a place where buyers and sellers converge to transact goods or services for profit. Demand refers to the quantity of a product or service as desired by buyers, and the quantity demanded is the value of a product that people agree to buy at a certain price.

Supply refers to the availability of goods and services that the market can offer. Competition in the markets determine the forces of demand and supply, while a competitive market is one where products remain the same and the prevalence of a large number of buyers and sellers who have no influence over each other. Let us take a look at a global example of how supply and demand plays in the rising of oil price. While the demand for oil is rising and is inelastic with respect to price in the short run. Which means that people have become heavily dependent on the consumption of oil for transportation, heating, and production of energy to run factories, etc.

It is therefore neither cheap nor easy to convert to alternative sources of energy since there is an elaborate infrastructure in place to deliver oil based energy around the world. Hence, on the demand side we have the rapid growth in terms of consumption and the difficulty in switching over to alternate sources. On the supply side, we have a cartel that controls a huge portion of the oil supply. This cartel is able to control the supply mechanism in order to cause the increase or decrease in oil price to suit their own benefit as well as the benefit of other oil producers. They are quite intelligent to make rational decisions based on short and long term needs and

strategies. So it is unwise to think that they will do anything else other than to maximize their position.

That does not mean that all they care about is short term profit. They understand that if the price does increase, they will create powerful incentives for research and development, investment in alternative sources, and infrastructure investment needed to deliver alternative sources to the market. Hence, they continue to pump up the volume, just fast enough to discourage serious investments of that type. A third factor that is widely acknowledged, is the speculative element due to the fluctuation in the value of the dollar.

If Americans elect politicians who are going to pay more attention to the budget deficit, and get our financial house back in order, then one can certainly look for the dollar to rebound a bit and the speculators to move on to other opportunities. This would ease the price of oil, maybe as much as \$40 a barrel. WORKS CITED

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