Supply, demand and equilibrium price of motor vehicles

Business, Marketing

A number of factors influence both supply and demand. An increase in income or an increase in the size of the family can change the demand and taste of the consumer which in turn raises both demand and supply. On the other hand if consumer's income is reduced then demand for motor vehicles, especially higher-priced vehicles, is reduced; as a result, the price and supply of vehicles drop. Incidents such as strikes or a rise in the cost of steel incur extra production costs for manufacturers; a rise in output costs means a fall in supply at a higher cost for the vehicles. On the other hand, if production costs are decreased and therefore motor vehicles are cheaper to produce then an increase in supply will occur with a reduction in price.

Supply and demand can be illustrated as curves on a graph and where the two curves merge is the equilibrium price and number; the equilibrium sets the benchmark towards which the market moves and if demand and supply swing then the equilibrium correspondingly changes.

An increase in petrol prices is an additional drain on consumer's incomes particularly those who receive low or middle incomes, thus higher petrol prices will affect demand for vehicles in that consumers will not be able to maintain them by way of affording petrol. Demand will therefore drop and the demand curve will move to the left while the curve representing supply will move to the right resulting in a lowering of the equilibrium price of the vehicle.