

Macroeconomic concepts of supply and demand

[Literature](#), [Russian Literature](#)



The law of supply and demand is one of the most important and basic principles of economics. The demand of a product can be defined as the amount of a good that the market desires. For instance if in China a company expects to sell 500, 000 units of its product then that is considered the demand for that product. The supply on the other hand is the amount of a product that a company can produce. The key factor that affects the behavior described in the law of supply and demand is price. The price of a good is originally determine by the company, but based on the law supply and demand the price of the product will adjust accordingly. The basic premise of this economic concept is that when the price increases its demand will go down (Curriculumlink). If the price of a good decreases the demand of that good will rise. Businesses use this law in order to make pricing decisions about its products. An example of the use of this law in the retail business is Black Friday. During this event retailers sell huge amounts of merchandise because a lot of products are priced below their retail value. The law of supply and demand can be used to determine the right pricing for a new product. When a product enters the market at a price that is too high customers will not purchase the item. This law is so important that many economists considered it the backbone of the economy (Investopedia). The law of supply and demand is represented in graphical form through the supply and demand curve. The normal form of the curve has a downward slope. “ Each point on the curve reflects a direct correlation between quantity demanded (Q) and price (P)” (Investopedia). Time does not affect the demand, but it does affect the supply. Suppliers cannot keep up with instant pricing decisions because there is a delay in reaction time to the

market. When the supply and demand of a product are equal the economy is in equilibrium. Consider the example of apartment rentals in a city. At the equilibrium price each customer who is willing to pay the price is able to find an apartment to rent and each landlord will be able to rent apartments at the going market price (Varian). The allocation of resources is optimized by the law of supply and demand. Without the existence of this law companies would not know how much to produce and their pricing structure would be arbitrary. Another phenomenon that occurs in the supply and demand curve is disequilibrium. Disequilibrium occurs when the price or quantity is not equal. The supply and demand curve can have shifts or movements. In order to better visualize these two concepts better Appendix A and Appendix B illustrate shift and movement in the supply and demand curve in graphical form. Movement occurs when there is a change in both price and quantity demanded. As illustrated in Appendix A, movement is represented from the change from point A to point B. Even when a movement occurs the demand and supply relationship remains consistent. A shift is different because it occurs when the supply or demand changes, but the price of the good stays the same. In Appendix B the shift is represented in line D1 and line D2. The law of supply and demand is an extremely important concept that all students of business or economics must understand. Its application affects the behavior of all businesses that sell goods or services since everyone must establish a price for their products. Companies that do not take into consideration the implications of the law of supply and demand will be negatively impacted. For example an American company decides to develop a new product. This product is priced at \$100 without taking into

consideration the law of supply and demand. The firm did not take into consideration that a Chinese firm offers a similar product for half the price. Due to market circumstances the price of the American firm is not viable. The firm will not sell many units at the \$100 price. Based on the law of supply and demand the company must adjust its price downwards if it wants to obtain revenues from its new product. The lesson learned from this example is that organizations must consider the law of supply and demand prior to pricing its products. A way to take advantage of the law of supply and demand in order to spur the sales of a company that has low revenues is by lowering the price of the good or service that the firm offers. Appendix A: Movement in the supply and demand curve (Google) Appendix B: Shift in supply and demand curve (Google) Work Cited Page Curriculumlink. org. Review of the Laws of Supply and Demand. Retrieved December 6, 2013 from <http://www.curriculumlink.org/econ/materials/sdlaws.html> Google. com. 2013. " Supply and Demand Curve Movement." 7 December 2013. < http://search.mywebsearch.com/mywebsearch/Ajimage.jhtml?n=77DE8857&qid=1541621744bd4d3b8fbbe3da60bd1d05&ptb=3DA6C451-7ECE-49AB-B15C-5CB726D73CF6&si=CNjUx5KVIbECFQgEnQod_iNI5g&id=XPxdm019YYpr&pg=Ajimage&ptnrS=XPxdm019YYpr&pn=1&ss=sub&st=hp&tpr=ss-hs&searchfor=supply+and+demand+curve+movement> Google. com. 2013. " Supply and Demand Curve Shift." 7 December 2013. < <http://search.mywebsearch.com/mywebsearch/Ajimage.jhtml?searchfor=supply+and+demand+curve+shift&id=XPxdm019YYpr&ptnrS=XPxdm019YYpr&n=77DE8857&ss=sub&st=hp&ptb=3DA6C451-7ECE-49AB-B15C-5CB726D73CF6&tpr=sbt&si=>

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