

Impact of scarcity and choice on the laws of supply and demand

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



The Law of supply, on the other hand, proposes that firms would supply more of a good at a higher price than they would at a lower price. Again all other factors, notably scarcity of the good, are held constant. This results in an upward-sloping supply curve. The market equilibrium is attained at a point where the demand and supply curves intersect giving us the equilibrium price. In this analysis, the impact of an increase in consumer income is shown by a shift in demand curve outside. On this demand curve, the consumer demands more of the good at the same price. Similarly, a specific choice pattern of consumers would result in a differing demand curve. For instance, take the example of a consumer who is a collector of paintings from a particular historic period. This consumer can pay any price for the desired painting up to a certain point and his demand curve may be shaped accordingly. Whereas the supplier would continue to be governed by the basic law of supply. Due to a differently shaped demand curve now the equilibrium price would be determined at the point of intersection of the unique collector's demand curve and normal supply curve for historic paintings. Similarly, a miser consumer may want to limit his consumption and demand even when the price of the good is falling. On the converse, a fashion-conscious consumer may be willing to buy fashion accessories even when prices of such accessories are going up. Consumer equilibrium would reflect a peculiar consumer choice pattern in each of these cases as the consumers confront normal upwardly sloping supply curves from producers in each of these markets. Another way to approach consumer analysis is by focusing on the utility and choice pattern of consumers. This is achieved through indifference curves. An indifference curve is a two-dimensional

graphical representation of all those bundles of two goods which can be combined to give a consumer the same amount of utility which is also a maximum utility for combinations of given goods. Here the two axes (horizontal and vertical) of the graph would represent the units of each good and points plotted in the plot area, the various combinations of the two goods combined in consumption situations. The indifference curve is a particular selection of such combinations of goods, from out of the plot area, and all combinations on an indifference curve represent the fact that the consumer derives the same amount of total utility from consumption. Since utility derived from variously combined two goods on an indifference curve is the same; the consumer is said to be indifferent between various combinations of two goods and the curve carrying all such combinations is termed as the indifference curve. Normally, with desirable goods on both axes (say, apples and oranges) the curve has a certain shape, further from the origin when both quantities are positive than when one is zero.

(Definition, 2006) The underlying assumptions about individual preferences are: the consumer knows his own preferences: for any market baskets A and B he can reveal his preference patterns; that his preferences have transitivity; for any good, more is better than less and variety in consumption is preferred to consuming single goods. (Modern, 2006) "

Economists usually make some of the following key assumptions and conditions when they study economic problems (1) Individuals are (bounded) rational: self-interested behavior assumption ;(2) Scarcity of Resources: Individuals confront scarce resources;(3) Economic freedom: voluntary cooperation and voluntary exchange;(4) Decentralized decision makings:

One prefers to use the way of Decentralized decision making because most economic information is incomplete or asymmetric to the decision maker ;

(5) Incentive compatibility of parties: the system or economic mechanism should solve the problem of interest conflicts between individuals or economic units;(6) Well-defined property rights;(7) Equity in opportunity and

(8) Allocative efficiency of resources."(Tian, 2006). While relative scarcity is assumed, as above, in entire microeconomic analysis; in absolute scarcity conditions, the supply curves undergo change. These are reflected in various forms of markets wherein the producers have differing degrees of control over the supplies. Thus we have a monopoly, monopolistic, duopolistic, oligopolistic markets wherein prices at equilibrium are higher than those in perfect markets assumed by classical laws of supply and demand as above. Such prices are invariably independent of the underlying cost functions of the producers.