Supply and demand simulation

Literature, Russian Literature

Supply and Demand Simulation Introduction The principle of demand and supply assumes that when all other factors are held constant (ceteris Paribus), an increase in demand may lead to an increase in prices of goods and services (Mankiw, 2011). On the other hand, an increase in price of goods and services may lead to an increase in supply as the suppliers are willing to supply at higher prices to make substantial profits (Mankiw, 2011). The simulation will focus on micro and macro economics, shifts in supply and demand curves as well as their affect on equilibrium prices and quantity. Additionally, the simulation focuses at providing an explanation of how price elasticity of demand affects consumers purchasing and firms pricing strategies. 1. Identifying two micro and macro economics principles from the simulation Micro and macro economics are two main branches of economics that facilitate economic decision making. For instance; a simulation was taken from the Atlantis town where the rent of a two bedroom houses was managed by Good Life management firm (Warker, 2010). The rent of two bed room was taken into consideration and how it affects demand and supply. The first micro economics principle focuses at decreasing amount of rent and vacancy cost to maximize profits by Good Life Company this in turn leads to a change in demand and supply curves respectively (Warker, 2010). The second micro economics principle involves increasing the amount of rent and lease as new companies come to town making the demand for houses to rise (Warker, 2010). On the other hand, the first macro economics scenario was witnessed through the statistical housing survey. The report indicated that the overall demand for houses in the cities adjacent to Atlantis was higher as many workers in Atlantis come in large number to take advantage of lower amount of rent charged (Warker, 2010). The second macro economics principle involves the government setting a price limit on the amount of rent charged so that middle class families working in the cities can afford (Warker, 2010). The reasons why the first two scenarios have been categorized as micro economics is because they focuses on how firms and individual make choices on how to utilize scarce resources to maximize their utility (Ayers & Collinge, 2005). On the other hand, the second two scenarios have been categorized as macro economics because they affect the performance of the overall economy (Ayers & Collinge, 2005). 2. Identify at least one shift of the supply curve and one shift of the demand curve in the simulation. What causes the shifts? A shift in supply and demand curves may be attributed to changes in expectation and population respectively (Ayers & Collinge, 2005). For instance, if the suppliers expect that rental prices would decrease in the future, they may increase quantity supplied leading to an upward shift in supply curve (Mankiw, 2011). On the other hand, an increase in population as new companies come to town may cause a right ward shift in demand curves as new companies and people come into town (Mankiw, 2011). The two situate ions may be represented diagrammatically as shown below. A shift in Supply Curve Prices Left Ward shift in supply curve Qty supplied A shift in Demand Curve Prices Right Ward Shift in Demand Curve Qty Demanded Source: Author 3. An analysis of how each shift would affect the equilibrium price, quantity, and decision making Prices E. P Equilibrium point E. Qty Quantity Source: Author A left ward shift in supply curve may cause an increase in equilibrium price and a decrease in equilibrium quantity (Baumol & Blinder, 2012). On other hand, a right ward shift in demand curve may cause a decrease in equilibrium price and an increase in quantity demanded (Baumol & Blinder, 2012). 4. How may you apply what you learned about supply and demand from the simulation to your workplace or your understanding of a real-world product with which you are familiar? I may apply the simulation in making individual choices on how to spend limited resources to maximize my utility. For example, based on the above simulation it can be scrutinized that I can be able know how to fulfill my needs by leasing a two bedroom house that I can afford based on my income constraints. 5. How do the concepts of microeconomics help you understand the factors that affect shifts in supply and demand on the equilibrium price and quantity? The concept of micro economics helps to understand causes of shift in demand and supply curves and the equilibrium price and quantity (Ayers & Collinge, 2005). Among the factors that affect shift in demand include; wealth, income population size, taste and preferences and prices of complementary goods and substitute goods respectively (Ayers & Collinge, 2005). On the other hand, a shift in supply curve may be brought about by supply determinants such as; level of technology, firms in the industry and cost of inputs used for production (Ayers & Collinge, 2005). 6. How do the concepts of macroeconomics help you understand the factors that affect shifts in supply and demand on the equilibrium price and quantity? The concept of macro economics provides the basis of understanding the impact of factors affecting the general economy such as unemployment, inflation, business cycles among others (Ayers & Collinge, 2005). The above factors portray a significant impact on the overall demand and supply curves of an economy as well as the overall economy equilibrium price and quantity (Ayers & Collinge, 2005). 7. Relating to the simulation, explain how the price elasticity of demand affects a consumer's purchasing and the firm's pricing strategy The elasticity of demand refers to a percentage change in demand over a percentage change in prices (Baumol & Blinder, 2012). When tenants are more sensitive to changes in prices of a two bedroom house it means that their purchasing power can be substantially affected by an increase in rent. Therefore, the demand for a two bedroom house has an elastic demand (Baumol & Blinder, 2012). On the other hand, when an increase in price of rent for a two bedroom house causes an insignificant change number of houses demanded then demand may be said to be inelastic. This indicates that a consumer purchasing power has has not been affected significantly by changes in rent charges (Baumol & Blinder, 2012). Conclusion Demand and supply simulation provide an in-depth investigation of the impact of both micro and macro economics concept on shift in demand and supply curves. It can be securitized that if suppliers expected a fall prices of a two bedroom house the supply curve shift towards the left. On the contrary, as population increases a right ward shift in demand curves was witnessed. Conclusively, the impact of both micro and macro economics on equilibrium price and quantity was put forth as well as the effects of price elasticity of demand on consumers' purchasing power. References Ayers, R. M., & Collinge, R. A. (2005). Microeconomics: Explore & apply. Upper Saddle River, N. J: Pearson/Prentice Hall. Ayers, R. M., & Collinge, R. A. (2005). Macroeconomics: Explore & apply: activebook version 2. 0. Upper Saddle River, N. J: Pearson/Prentice Hall. Baumol, W. J., & Blinder, A. S. (2012).

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