Essay on the supply and demand simulation title page

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The Supply and Demand Simulation

Supply and demand are powerful economic indicators that depend on the level of prices. We should acknowledge from the start, that in this supply and demand simulation, we will analyze the microeconomics and macroeconomics concepts of these indicators. Monthly rental rate for two-bedroom apartments plays a role of price in our supply and demand simulation. As we can see after examining the figures and analyzing of statistics, with the changes of a rental rate the quantity demanded and the quantity supplied alter too. In macroeconomics, the concept of supply and demand is represented by AD-AS model. It shows the influence of the price level on the output of goods and services. In macroeconomics demand is called aggregate demand that means the sum of consumer demand, investment spending, government spending and net exports. The counterpart for this macroeconomic aspect is the aggregate supply that depicts the level of output that firms are ready to supply at a certain price. The macroeconomics use aggregate figures leaving the behavior of firms and individuals without attention. It describes all the processes in general without going into details. Microeconomic concept of supply and demand deviates from this prospect. It explains these indicators from the side of individuals and firms but not the whole market. The law of demand represents the relationship between prices and the quantity of goods and services. More people can afford to rent an apartment at a lower price than at a higher price while sellers will offer more of a product at a higher price than at lower price.

In our simulation, the state of equilibrium was observed in January (Year 7).

We had such a situation when quantity demanded equaled the quantity supplied. However, with the decrease of monthly rental rate from 1, 300 to 1, 275 in the quantity demanded exceeded the quantity supplied in July. Such a situation could occur because of price changes, changes in the environment, changes in usefulness, income, change in price of substitute product, change in styles tastes and habits of the customers. Some shifts in a supply curve can also be noticed. Quantity supplied also decreased because of price change and non-price factors such as changes in the cost of production. Any or all of the following changes are likely to affect the quantities supplied. Other profits opportunities, changes in the cost of production, future expectations, government policy have a significant effect on the supply curve and shift it to the right.

In the first year with the quantity demanded 1700 and a surplus of 300 units we can conclude that the quantity supplied exceeds the quantity demanded. Under such conditions, sellers will offer for sale more goods and it will decrease the prices. The year three represents the complete disappearance of this good or service.

In the year seven (January), we can observe the state of equilibrium. The interaction of supply and demand results in the establishment of equilibrium with the price level of 1, 300$. Such a situation is an ideal for market. It is also called perfect competition that market always tends to. There is no surplus nor shortage all the resources are used rationally.

In the year seven (July), monthly rental rate goes downward that becomes the reason of the surplus. Such a condition benefits customers and their purchasing capacity increases. However, it gives the incentives to the sellers to be more competitive.

With a significant price shortage in the year nine, more people can afford to rent a two-bedroom apartment. The difference between supply and demand is huge. Thus, the seller does not offer many apartments, as such a policy is not profitable enough while more and more people tend to rent or buy such an apartment.

Returning to the issue of the microeconomics concepts, they help to understand the shifts in the supply or demand from the side of the customers with their tastes and preferences and firms with their intentions to minimize costs and maximize profits. However, the concepts of macroeconomics give the whole picture of general processes and the comprehension of economic laws that cause the shifts in the demand and supply curves.

As for elasticity of demand our simulation proves that the demand for two-bedroom apartments is rather elastic, as a relatively small effect in price leads to great changes in quantity demanded and causes different shifts.

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