Commodities 1745

Jennifer Loughery 082970

Introductory to Micro-Economics 1011-107

Dr. Pryor

November 25, 1996.

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company was forced to shut down a pipeline due to the need for repairs. This impending

shortage led to the decrease in prices for other heating commodities, as well as larger

profits. The demand for energy was becoming greater and greater because it was that

time of year when consumers began storing energy in their homes to prepare for the cold

winter months ahead.

The four commodities mentioned in this article, crude oil, heating oil, gasoline and

natural gas are all substitutes for one another. This is true because the cross elasticity of

demand states that as the percentage change in the quantity demanded of one commodity

results from a one percent change in the price of another commodity. In other words, the

increase in demand for crude oil, gasoline, and heating oil was the outcome of the price

increase in natural gas.

As shown in the graph below, the cross elasticity of demand is direct (positive).

As the price of natural increases, the quantity demanded for the three other energy

commodities increase.

The market system today functions on price. Consumers make their decision on

what to buy by the price of their desired good. Naturally, consumers will choose the

lower price of a commodity they wish to purchase. This is why consumers, wanting to

heat their homes, chose to heat them with natural-gas" s substitutes (crude oil, heating oil,

or gasoline) rather than the natural-gas, the higher priced commodity. The commodity,

energy, is something that people can not go without during the winter months. If their is a

shortage, which means that consumers demand more than the available supply, it leads to

an increase in price.

As shown in the graph below, as the supply decreases, the price increases. This

means that the price is inelastic. This is true because as the price of the commodity is

increased, the total amount spent on the commodity will increase also.

The price mechanism reflects scarcity, which is stated as the greater demand for a

good, energy, (because of the desire to store it for the colder months ahead) with the same

supply of that good becoming scarce resulting in a higher price.

Consumer" s demand for energy changes with the seasons. For example, the

demand for energy in the summer is probably very low. The demand for energy in the fall

will be higher because consumers begin storing it for the winter. And during the winter

months the demand is high, where as during the spring months the demand decreases from

the other months. This commodity is greatly influenced by the climate and the type of

region consumers live in. For example, people in Florida do not have the same type of

energy bill as the people in Pennsylvania do.

The market of a commodity is determined by many things, one of those being the

nature of the commodity" s prices, which is influenced by the demand of that particular

commodity. For the commodity, energy consumers can see that the quantity demanded is

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