Market equilibrium

Business

Market Equilibrium Law of demand and the determinants of demand The law of demand s that if the prices of commodities are high, then buyers of commodities will inquire lower quantities compared to the case when the prices are low. It is obvious that a decrease in price will lead to demand for large quantities (Lieberman & Hall, 2008). Demand has several determinants such as income, tastes and likes, price of associated commodities, populace and others. If we consider the demand of homes in the market, income is a determinant since it lowers or increases demand for the commodity. High population will increase demand while the tastes and preference will affect the choice of the commodity (Lieberman & Hall, 2008).

Law of supply and the determinants of supply

The law of supply suggests that if prices for commodities are high, then the supply of the commodity will rise. The supply will diminish if the prices go down. In this case, the price of the materials used for constructing houses will determine the supply. If the materials and land are at a low price, then more homes will be supplied (Salunke & Bagad, 2009). Taxes and subsidies will determine the quantities in the market. If there are expectations of price increase, suppliers are likely to withhold the commodities (Salunke & Bagad, 2009).

Efficient markets theory

The market theory suggests the presence of succinct information in the market. This is an indication that the information on the stock is visible to all investors (Salunke & Bagad, 2009). With the same information on commodities, the price available is an expectation of all purchasers. This aspect is suitable in equilibrating the market because it prevents tentative trade (Tucker, 2011).

Surplus and shortage

If the price of homes in the market is greater than that of equilibrium, amounts availed into the market become larger than those in demand. In this case, a surplus arises and leads to reduction of prices. With the prices below stability, amounts availed into the market become lesser than those inquired. A shortage occurs and leads to rise in prices of the commodity (Salunke & Bagad, 2009).

In order to ensure equilibrium, buyers and sellers drop and raise the amounts of commodities and supplies to the extent of reaching stable prices where demand and supply are the same (Salunke & Bagad, 2009). If the demand for homes becomes too high, the supply increases and makes sellers reduce the prices. As the price drops, the supply diminishes and creates a need to raise prices. When the prices rise, demand reduces and supply increases. The process proceeds until there is market equilibrium (Tucker, 2011).

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Price

Dc

Quantity

Denotation of market equilibrium

(Lieberman & Hall, 2008)

(Lieberman & Hall, 2008)

References

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