

# The effect of scarcity and choice to supply and demand essay sample



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Resources are scarce since the quantities available to us are much less than the quantities we require to satisfy all our wants, which are limitless. As such we must use whatever little available quite wisely by selectively satisfying on those wants that we can afford and leaving the rest unattended. This involves making choices amongst various competing alternatives. Thus, a person with \$ 20 which can only buy either a book or a watch but not both will be compelled to choose to buy one and forgo the other (Nyaga, 2004).

He/she can only own the book at the expense of the watch or own the watch at the expense of the book. In choosing the book one will forgo the watch. This is known as the opportunity cost. That is the alternative foregone in order to enjoy another good or service. Due to scarcity and choice, we are advised to prepare a scale of preferences before we spend the money available to us.

When there is an increase in demand there will be higher prices and high prices will attract more supply. In a normal situation, an increase in supply will bring about a drop in equilibrium price and an increase in equilibrium quantity. For example, with the increase in goods supplied, the suppliers will be compelled to lower their prices so that they can sell the surplus. At the reduced prices, the quantities demanded will be higher. A decrease in supply will result in an increase in equilibrium price and a decrease in equilibrium quantity.

## Conclusion

Scarcity and choice go together because when the commodities are limited in supply, one must decide on what to purchase and when the supply is high

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the demand becomes low. So scarcity and choice affects supply and demand very much.

#### REFERENCE

Nyaga Michael K (2004). Business studies form 1. Kenya literature bureau (Nairobi)