

Free supply and demand essay sample

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In economics, supply refers to the amount of goods and, services available for purchase while demand refers to the number of people available and, willing to buy those goods and services. To understand demand and supply better, one should remember that supply and, demand is about trade.

Buyers use money to purchase goods while sellers obtain money by selling goods. Nevertheless, behind this exchange of monies is the exchange of goods and services. Moreover, demanders and suppliers are different. It is vital to create a distinction between the sellers (suppliers) and, the buyers (demanders) of a good. Both buyers and sellers react differently to changes in price as well as changes in other variables that affect demand and supply. For instance, a lower price increases the amount of goods that demanders would want to buy but reduces the quantity sellers would want to sell. It is necessary, therefore, to understand how each group reacts to which variables.

There are laws that govern demand and supply referred to as law of demand and, law of supply respectively. The law of demands states that when the price of goods and services increases, the quantity demanded decreases - assuming other variables remain constant. These other variables are the non price determinants of demand and include tastes and income. When these other variables remain constant, we say that the quantity demanded and, price has an inverse relationship. If the price goes up, the quantity demanded goes down, and when the price goes down, the quantity demanded goes up. The law of demand holds because lower prices attract new buyers and, allows buyers to buy the same number of goods with less money.

The law of supply states that the quantity supplied will increase when the price is increased and, will reduce with the price reduction. The quantity supplied and, the price has a direct relationship. When the price goes up, the quantity supplied goes up and, when the price goes down, the quantity supplied also goes down. The law of supply holds because higher prices increases the prices of existing sellers, causing them to want to sell more and, higher prices attracts new suppliers.