The supply and demand model in microeconomics - essay

Economics, Microeconomics

Microeconomics is a branch of economics that leads researches upon the issue of how the individual, the household or the companies making decisions to allocate limited resources. (Bade and Michael, 2001) Microeconomics tends to explain and ascertain how these decisions and behaviors affect the relationship of supply and demand for goods or services, which ultimately impacts prices, and also how prices in adverse determines the supply and demand trend of goods and services. In contrast with another branch of economics, macroeconomics which mainly deals with some gross economic behaviors such as the issues of national growth, inflation and job employment which take the gross economic activity into consideration, microeconomics concentrates upon the corresponding consequences imposed by national economic policies such as taxation variation or tariff level. One major goal of microeconomics is to understand the market mechanisms that prescribe goods or services' relative prices and distribution or accessibility of limited resources. It analyzes the reason and genesis of market failure when markets fail to meet efficient requirements and depicts the theoretical foundations which are essential for continuation of efficient market and perfect competition. Major fields of researches contain general equilibrium, markets efficiency, uncertainty and the elasticity of products in the market system. (Arrigo Opocher; Ian Steedman, 2009) This essay will firstly introduce some basic theories and hypothesis of microeconomics. Following the description of fundamental concepts, it will extend the understanding of these concepts via using external article resource to illustrate the application and indication of these concepts. Finally, an executive summary will be represented.

Theoretical Basis

There are few assumptions and premises for the successive analysis of market trend, supply and demand tendency. One assumption concerns about perfect competition which implies that there are many buyers and sellers and none could shed significant impact upon the prices of goods and services. In many realistic transactions, the assumption fails since prices manipulation can be achieved by some individual buyers or sellers. However, the theory works well in simple situations. As one economic model of price determination, Supply and demand model concludes that in a competitive market, price will function in accordance with the quantity demanded and the quantity supplied in turn results in an economic equilibrium of price and quantity. It worth noting that the model is a partial equilibrium model which indicates the price change of a specific good and the quantity determined. Determinants of the supply and demand curve excluding price comprise consumers' income or input prices are not directly exhibited in the profile. Changes in the variables are shown by shifts along the supply and demand curves. The requirement for diverse goods or services is typically considered as the pursuit of utility maximization progress. The depiction of supply and demand curve of one specific commodity, under certain premises and constraints, gives hint toward individual choices and personal inclinations. (B Lewin, D Giovannucci and P Varangis, 2004)

Elasticity is another measurement index that refers to the changing extent of the quantities supplied and demanded varies with various determinants such as price and other determinants. Generally, it is decisional to calibrate the changing degree of the quantity demanded or supplied when price changes. Price elasticity shows how the amount of goods demanded is affected. This index is conducive to measure the extent how much increased price may offset the decrease of demands. Elasticity is counted as the percentage change in sale volume divided by the percentage change in price.

Case study

Demand and supply relationship in market can be statistically estimated from price, quantity and other pertinent information in the model. The article primarily focuses on the price and demand trends of corn and soybean in the next decade. The two agricultural products will be separately discussed. The corn and soybean markets are predicted to increase 13% and 66% respectively. The corn and soybean exporting markets are mainly occupied by Argentina and Brazil while USA keeps a steady trend in the next decade. Statistically, US corn and soybean exports will increase about 1. 5% respectively while Argentina will expand corn and soybean exports by 40% and over 300% respectively and Brazil by 62% and 83% respectively. In the coming decade, world corn production will increase about 10. 4%. Although China's productions of corn and bean also keeps a growing tendency, but the total productions are not sufficient to meet national need.