

# Supply and demand – microeconomics assignment

[Economics](#), [Microeconomics](#)



Macroeconomics is the study Of the entire economy in a society. It takes into consideration the rate of inflation, business cycles, business growth and the rate of unemployment. Microeconomics is the study of individuals and how their choices influence the flow of the economy. For example, the price of gas in California is about 10% higher than the national average. California is one of the largest states in the USA in population and land. Californians choose to drive everywhere and mostly alone, causing the demand for petroleum in the state to rise immensely which increases the supply.

The Law of Supply states that the amount of product supplied increases as the prices increase as long as other factors are constant, and vice versa, if supplies decrease so will the prices. The Law of Demand states that the amount of product demanded rises as the prices fall or prices rise when the amount of product demanded falls so long as all other factors are equal. An article on Gasoline Supply and Demand by Reuters on August 28, 2006 discusses the price increases due to supply and demand of petroleum in the United States.

Due to the way Americans are used to living their lives and their every day bits, the demand of gasoline has increased. The United States' inability and/or refusal to refine oil within the country created a demand for the outsourcing from those countries which have ample supply. According to the U. S. Energy Information Administration (EIA), gasoline prices in the U. S. In June 2006 averaged \$2. 93 per U. S. Gallon, compared with just over \$2. 33 per gallon in June 2005. (<http://EIA.Doe.Gob>) The average price of gasoline in June 2004 was only \$2. 01 per gallon.

According to the EIA, gasoline demand has not decreased in the United States or 23 years but high prices in 2005 and 2006 have reduced the rate at which it increases from levels between 1.5 and 2 percent seen in years past. Jason Schooner, an economist with Wichita Bank in Charleston, North Carolina stated, "Year-over-year demand is still up and that is something we have seen fairly consistently." Furthermore, gasoline demand in June of 2006 grew by just over 0.6 percent year-on-year, less than half the rate previously reported by weekly data and in August 2006 gasoline consumption averaged nearly 400 million gallons a day.

The Energy Information Administration's monthly trolley supply report states that The United States monthly oil data showed that gasoline demand in the country rose by 60,000 barrels per day to 9.44 million bpd (barrels per day) in June 2006 or up 0.64 percent from June 2005. On average American commute 50 miles per day and as families move into suburban communities the commutes will increase in distance, thus increasing the demand. The question is whether or not the American consumer can modify their existing lifestyles due to a tremendous increase in gasoline.

The other question is whether the United States government will tepee in at some point and help regulate the cost of gasoline, or beginning refining the Oil that exists in the Country. Refining oil in the United States is met with all sorts of red tape beginning with environmentalists, but that is a topic for another day. The data above was taken from 2006, the year is now 2008 and the average price of gas in the United States is \$4.12. In two years the price per gallon has just about doubled. A secondary article found on MASC..

MS. Mom stated, " There hasn't been a new oil refinery built in the US since 1976" and existing United States finesses are trying to get all they can out of their current production capabilities. It is still to be determined whether these efforts can be enough to meet the growing demand for petroleum in the country. There are efforts in the United States to increase production of alternative fuels (I. E. Ethanol) across the country. Automobile manufactures are beginning to increase production of alternative fuel vehicles to reduce the increasing decline of sales of vehicles due to the high cost of gasoline.

With ever-increasing demand of petroleum, based on population growth, longer commutes by employees and acts of nature, the Ignited States must invest money in existing refineries to increase production along with promoting and supporting alternative fuel development. The articles emphasized the increase In price due to the increase in demand. This gasoline crisis is forcing the American consumer to modify their driving habits and lifestyles altogether. Many consumers have begun arranging car pools, are being more efficient with errands and perhaps foregoing a vacation.