

# Demand and supply in macroeconomics and microeconomics

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



## **Introduction**

Economics is a study of how to use limited resource to satisfy unlimited people wants. Demand and supply is the two main concept of the modern economic. Demand is what people want and supply is how many goods available for people want. In free market the price of good is determined by the numbers of consumers and how many products available for them. As the result of that, when consumers understand the law of demand and supply they will have ability to decide when they can buy a product with low price and the suppliers can set the right price of this product and decide how many product they will make. In this case study we will evaluate the theory of demand and supply. We also give an example of demand and supply in food market in Hanoi in storm season.

## **Theory**

Demand and supply might be one of the basic concepts of economics. It is the core of market economy. Demand is the price or quantity of a product or service desired by consumers. The demand relationship refers to the relationship between the price and quantity demanded, which are the price and quantity people willing to pay for. Supply is the amount of products a market produces. The supply relationship represents the relation between the price and quantity supplied, which are the price and quantity suppliers willing to produce. Therefore, price is the main concern for demand and supply to consider increased or deducted, and so demand and supply vary according to the price. According to the law of demand and supply, the higher of a product's price the more suppliers will produce and the less

people will buy. Because of that, the market price is changes. ( Investopedia news and articles, copyright 2010 )

In such a case, the quantity supplied is greater than the quantity demanded and there is a surplus of the good on the market. From the graph we see that if the unit price is \$3 (assuming relative pricing in dollars), the quantities supplied and demanded would be:

Quantity Supplied = 42 units

Quantity Demanded = 26 units

Therefore there would be a surplus of  $42 - 26 = 16$  units. The sellers then would lower their price in order to sell the surplus.

Suppose the sellers lowered their prices below the equilibrium point. In this case, the quantity demanded would increase beyond what was supplied, and there would be a shortage. If the price is held at \$2, the quantity supplied then would be:

Quantity Supplied = 28 units

Quantity Demanded = 38 units

Therefore, there would be a shortage of  $38 - 28 = 10$  units. The sellers then would increase their prices to make more profit.

The equilibrium point must be the point at which quantity supplied and quantity demanded are in balance, which is where the supply and demand

curves cross. From the graph above, one sees that this is at a price of approximately \$2.40 and a quantity of 34 units. (NetMBA.com)

In general, if the price of a product is at a low level, more people want to buy it and the demand will increase. As the result, there will be a shortage. The supplier now will be willing to produce more because people still want to use that product. So the supply increases. It will keep increasing to a point where customers demand and the quantity of that product is equal. Thus, there is a tendency toward an equilibrium point where quantity demanded equals quantity supplied. On the other hand, if the price of a product is at a high level, less and less people want to buy it and so the demand decreases. In the end, there will be a surplus. The supplier now will drop down the price in order to attract more customers. This price keeps going down until they sell all out of the surplus. So, the price is moving backward to an equilibrium point where price demanded equals price supplied.

So, how a firm know when to produce more or less? As in THE TIMES 100 article states that " An important aspect of marketing is knowing what the demand is for your products. All companies engage in marketing activities to find out what the demand for their different products will be. For example, Coca-Cola will want to investigate market trends in the carbonated drinks sector, while a bank will want to find out about the demand for financial services. Armed with this information they are able to make appropriate pricing decisions based on what other suppliers are doing, as well as on the demand from consumers in the market".

Some main factors causing the change in demand:

Economic factors: When a country economy is good and people have more money in their pockets. They likely want to consume more and thus the demand will increase

Social factors: As the social trend changes, people might have less time for taking care of their houses. Therefore, they will need to buy more washing machines and hire employees to do all the cleaning and cooking services. So, there will be more opportunity for firms making washing machine and higher demand for cleaning service.

The quantity and the price of competitive goods: the higher the price of a competitive good, the higher will be the demand for this good as customers change from competitive goods. An example for this is that, if the price of i-phone mobile phone goes up, the demand of other smart phones will increase.

Some main factors causing the change in supply:

Wants: it is simply the demand for a particular product. As the demand rises, the supplies will rise also.

The number of suppliers: If new companies join the market, usually the supply increases

Natural and unpredictable events: If earthquakes, floods and fire occur, the output likely to drop. Wars, which affect the supply of imported raw materials, the breakdown of machinery, may happen anytime.

(John Sloman (1998), and The Times 100, Copyright © the Times Newspapers)

## **Demand and Supply in Macroeconomics and Microeconomics:**

Macroeconomics is the study of the whole economic activities which include inflation, recession and unemployment... Therefore, it concerns with the total demand and total supply.

If the total demand is high compared to the total supply, inflation and balance of trade deficits will occur

Inflation: is the increase of the price level in the whole economy. If there is a rise in demand, suppliers likely react by setting up high prices. After all, if the demand is still high, they can sell as good as before and make a lot of profits. Inflation will happen when all suppliers just keep their prices at high level.

The balance of trade deficits happens when import is greater than export. When the aggregate demand rises, people will have a tendency to buy more foreign goods, more imported cars, wines, electronic equipments will be consumed. If the inflation is also high, the domestic goods are even harder to compare with foreign goods. As the result, our goods cannot be consumed not only by our country but also foreign countries.

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If the total demand is low compared to the total supply, unemployment and recession will occur

Recession: is the economic situation when business activities are declined. As the result, fewer and fewer people are willing to spend money. Thus, firms will have a lot of surplus goods. They likely to buy less from the manufacturers, which will decrease the production in return.

Unemployment will happen if manufacturers do not need to produce anymore.

Microeconomics is the study about the individual parts of economy, individual firms. It studies about the demand and supply of specific products and services such as cars, clothes, food, electricians....

We cannot make as many goods as want because the lack of resources.

There are some choices must be made in our society:

What should be produced? We don't have enough resources to produce as many goods as we want. Therefore, we have to decide how many cars, how many buildings, how many hospitals... should be produced?

How should things be produced? If there is more than one way to produce thing, we have to decide which is the best.

Who will use our products? This is the problem of income. We have to decide what the wage of particular job such as: doctor, engineer, farmer... Because if they have more money, they likely to consume more (John Sloman, 1998)

## **Case study**

In October of 2008, Ha Noi was flooded by heavy rains. Because the drains did not work effectively as it was supposed to be. People in Ha Noi had a terrible experience because of the scarcity of the food.

Learning from that experience, people in Ha Noi today usually store food when a storm is announced coming. As the matter of fact, in the evening of July 17th in 2010, the news forecasted that a storm might be coming.

However, in the next day, the weather turned normally again. Because of the worry about the scarcity of food, people in Ha Noi already rushed to the super market and bought as many foods as they can. The change of demand and supply made a lot of supermarket out of stock, also the price of the food was doubled the supposed price. At some supermarket, people had to struggle, pushed each other just to fill up their fridge. As a result, they had to eat frozen food for months while low price fresh food is selling everywhere. At this point, the market had to suffer the decrease of food demand because people already had food in their fridge.

In this case, when a demand surprisingly increase the quantity supply cannot afford to satisfy all the needs instead of that is the increasing of the price.

When the demand drops down, the quantity supply stays the same but the price has to fall to attract more customers.

## **Conclusion**

Nowadays, the real world economy is too complex that even in some cases the law of demand and supply cannot be applied. The market today is



changing ceaselessly; many individual speculations are getting even more and more uncertainly. Therefore, people shouldn't rush in deciding to buy anything. In my opinion, stock and real estate markets are really risky for those who only follow the market tendency meaning to say the majority of people and don't have enough knowledge of how the economy works.

Furthermore, the government should be flexible with the policy to keep the market price at a suitable level so that both customers and suppliers can adapt with, and also avoid inflation and unemployment.