Demand and supply research paper sample

Business, Marketing

The performance of the economy depends entirely on demand and supply of goods and service in the economy. The economy has a demand side and supplies side. When demand side and supply side are equal the equilibrium is achieved. In some instance, the aggregate demand may be high than the supply. This leads to an increase in price of goods and services. When the supply is higher than demand it leads to surplus of good and service in the market. For us to understand the microeconomics concept of demand and supply, we have to explore demand and supply individually.

Demand can be define as the quantity of goods and services the customer is capable and willing to purchase at the prevailing price in the market. The customer must have a desire for the commodity which will trigger him or her to purchase the commodity. The ability to purchase products or service will depend on consumer income. Demand is affected by many factor among them include, consumer preference, the prevailing price of the good, availability of substitute, demographic, consumer income, and government policy.

The size of the population plays a significant role in determining the level of demand. Households with small family tend to purchase less product and service as compared to large household. The demographic structure also plays a vital role in determining demand level. Demand for goods and services associated with young people will be in a population which consist young people. The economic status of the population also determines the demand level of goods and services. Populations made up of poor people tend to demand less as compared with rich population.

Government policy plays a significant role in determining demand level. The government policy may include taxes and subsidies. When government increases tax, producer cost of production is directly increased. The producers react by shifting the tax burden to consumers. This leads to an increase in the price level of the commodity. Increase in price of the good and service lead to a decline in demand level. Government subsidies tend to reduce the production cost of goods and services. As a result, the price level of goods and services is reduced. A reduction in price of good and service lead to an increase in demand of good.

Level of consumer income also determines the level of demand for good and supply. When consumer income is high, consumer purchasing power is also high. As a result, the demand for normal good also rises. Low level of income reduces the consumer purchasing power. When consumer purchasing power is low, consumer tends to purchase few good and services.

Supply is the amount of goods and services the producers are capable of producing and sell to the market at the prevailing price. Summations of individuals supply add up to market supply. Supply of goods and services are influenced by many factors. These include price of input, government policies, state of technologies, and number of suppliers . government Policies consist of taxes, regulations, law on wages, zoning and environmental regulation. Government policies can have both positive and negative effect on support. Government can impose high tax on production firm. This will lead to increase in production cost of firms. A result, the level of production decline at a steady rate hence decrease in supply of goods and services.

The price of input may also determine the level of supply. The input price may include price of raw material, price of labor, price of energy. Increase in price of this item lead to an increase in the production cost. An increase in cost of production leads to reduction in level of supply. An increase in the labor cost will lead the firm to reduce the production level. As a result, the supply level will decline.

The supplier's expectation also determines the level of supply. The suppliers may speculate an increase in price of goods in the future. They suppliers end up hoarding goods. Hoarding of good reduces the suppliers of goods and services in the market. If producers speculate a decline in price of goods in the market, they will increase the supply in order to minimize making a loss in the future.

Market equilibrium is achieved when aggregate supply is equivalent to aggregate demand. The demand of the product s and services may be higher than supply. This will lead to shortage of goods and service in the market. The suppliers take advantage of the condition by raising the price of goods and services. These leads to a demand pull inflation. When the supply is more than demand the price of good and service tend to fall.

The demand and supply in the money market is influenced by interest rate. There are three reasons that influence individual demand for money. These include transaction motive, speculative motive, and precaution motive. If individual expect an increase in return on bond, he or she will demand more money to invest in bond and other securities. The government is sole supply of money in the money market. The government determines the money supply in the market. This enables the government to regulate economic growth of a country.

Works Cited

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