

Free essay on scarcity and shortage

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Although terms scarcity and shortage may seem similar at the first glance, they are not the same. In economics these terms apply to different types of situations. One of the basic postulates of Economics is that society operates within a world where resources are limited, and it is impossible to satisfy the overall demand and fulfil all the existing needs. Scarcity implies that in the situation when price is equal to zero, it is impossible to satisfy all demand, because producers are not able to produce more. Scarcity exists everywhere, as resources are always limited (renewable unlimited resources such as solar energy is one of exceptions). Scarcity might be eliminated only if the demand for a certain resource is equal to zero. In other words, resources are not scarce only if they are not needed.

Shortage is a more social phenomenon, as it is “ created” by market.

Shortage is usually determined by a market price. It reflects the exceeding of demand over supply. It does not imply that it is impossible for producers to produce more to satisfy existing demand. It suggests that producers are not willing to produce more at a given price. Price fluctuation determines the amount of shortage and surplus. If there is a shortage on a given market, price increase will motivate producers to produce more. At the same time, price increase will decrease the demand for a given product. As a result, the market will tend towards equilibrium point and shortage will be eliminated. Overall, that brings us to the point that shortages could be managed by the increase in price, while scarcity is not manageable, because resources are always limited.