Excess supply concept

Literature, Russian Literature

Excess Supply

Excess supply is a market situation that takes place when the quantity of a commodity is more than the quantity needed by consumers. It is caused by increased in prices, improved technology, climate, and government regulations. Economists define excess supply in terms of equilibrium, that is: Supply minus the demand = excess supply or surplus. Equilibrium is established at the point where the quantity the suppliers are willing to sell is the same as the quantity that buyers are willing to buy. (M. Boyes & Melvin M., 2002 pp. 61-68). A price that is above equilibrium creates surplus. We have a graph here that explains the equilibrium of supply and demand.. At price (b) supplier is willing to supply 100 pcs. of customized bags, while customers are willing to buy same quantity at same price. An excess supply will be created when price changes to (C), where buyer wants only to buy 75 pcs, while seller is willing to supply 150 pcs.. Price B is the minimum amount that a supplier could sell that is just enough to cover its cost of production. At price C the firm is more than willing to produce more because this is the point where they start to receive profit. A price below B means a shortage because suppliers are not willing to produce more and demand is high.

EQUILIBRIUM POINT OF SUPPLY AND DEMAND

There are instances that there will be no excesses of supply despite increase in price because of the need for the commodity. Oil prices have increased many times, but demand remains constant or decrease because demand is neglible since people need it in daily lives.

Excess supply will also occur when there is a substitute product around. When supplier raises its price, demand declines because people will look for substitute. A government regulation fixing additional taxes for cigarettes and alcohol drinks will decrease demand and incur an excess.

Reference:

Boyes, Willism & Melvin, Michael.(2002) Chap. 5. Markets, Demand and supply, and the Price System. P. 68. Micro Economics. Jhoughton Mifflin Co. Inc, USA. p. 61-9-687