

# [Supply and demand](https://assignbuster.com/supply-and-demand/)

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Supply and Demand Demand is the will of the consumer to purchase or consume a product or service. The consumer has to be able to purchase the product or service right now in order to be considered for demand; anything else would count as future demand. Demand can change through number of different factors, such as budget, availability, and personal preference. Demand forms a key part of the economy because without it prices could not be set and goods and services could not be offered. Supply is the amount of a good or service that is put up for sale for consumers to purchase. The driver of supply is profit. In other words, producers are looking to get as much money as they can for their goods and services. Supply, in conjunction with demand, determines the price at which a good or service is set. For instance, if there is strong demand for an item then there will also likely to strong supply, which in turn will lead to higher prices since there are consumers willing to pay that amount. The intersection where demand and supply meet forms the equilibrium point. This is where consumers and suppliers both get a fair deal from a transaction. This equilibrium point is constantly changing, as demand and supply can either increase or decrease at any time. Demand and supply are two key drivers in a free and capitalist market, as it gives buyers and sellers the chance to find a price that is suitable to all parties. The forces of demand and supply determine how many products or services will be available and the prices that will be offered for them. Opportunity Cost The opportunity cost of a good or service is the next best alternative foregone or not purchased. The concept of opportunity cost is based on the fact that we all have limited resources, even though we may want to purchase more things that we have funds for. Even though opportunity cost is thought of as an economic principle, it can actually be used in any given situation. For example, if someone only has one hour of spare time, and they want to spend 30 minutes watching a movie, 30 minutes playing with their son or daughter, and 30 minutes eating food then something has to give. It is not possible to fit all of those activities in the allotted time, so that is why a choice must be made to forgo something. The opportunity cost of doing only two of those activities will be the third one. Opportunity cost forms a vital part of microeconomics because it would be impossible to weigh up decisions without it. Opportunity cost is not valued in monetary terms, since many of the decisions involved might not be financially tangible. An example of this would be if I had $10 and I wanted to buy a $10 pair of shoes and a $10 shirt. I would have to make a decision between the two, but the opportunity cost would not be $10; it would be the other product that I did not choose to purchase. Opportunity cost will always be present in a world where there are unlimited needs and wants and only limited resources or funds available. Elasticity Elasticity relies on the forces of demand and supply, since a product's elasticity is determined by the rate of change in the quantity demanded and quantity supplied. The elasticity of a product or service can vary depending on a number of different factors, such as substitute and complimentary goods, etc. Substitute goods are anything that can replace an existing good, such as shoes for sandals, while complimentary goods can be used in conjunction with an existing good, such as socks and shoes. For example, if the price of a substitute good or service decreases, then it is likely to lead to decrease in the quantity demanded for a specific good or service. This in turn may lead to an increase in the price of that specific good or service. The price elasticity of demand is determined through a simple formula or ratio. The percentage change in quantity demanded is compared to the percentage change in price to see if there is a difference between them. If a good or service is perfectly elastic, then an increase in price would result in the same percentage (decrease) for quantity demanded of that good or service. On the other hand, inelastic demand occurs when the quantity demanded does not change as much in percentage terms as price does, while elastic demand is when the quantity demanded changes much more in percentage terms that the price of a good or service does.