Price mechanism in economics

[Literature](), [Russian Literature]()

Scarcity in simple words is the shortage of a useful resource or an item. In economics terms, scarcity is referred to as the lack of sufficient factors of production needed in the production of certain goods and services. Economists maintain that scarcity exists on economy-wide bases. For e. g. Individuals want many things for consumption but they have to go without some. Businesses have a choice of buying certain equipment in which they have to make a choice and go for the best option. Similarly, economies face scarcity when they decide to produce certain goods with finite resources and forego others. The concept with which these choices are made is called " Opportunity Costs". This is a basic principle concerning scarcity. The concept holds that opportunity cost is giving up the next best alternative for the best and most rational choice. Similarly, trade-offs are another option to counter scarcity, so exchange and international trade.

In this class, we expect that we will be given certain tools and techniques that will help us manage the problem of scarcity and will help us deal with it in the most efficient manner. This will minimize the impact of scarcity and help us make rational choices given the quantities of finite factors of production at our hands.

Equilibrium means balance and where there is no tendency to change. Market equilibrium is a situation where the plans of buyers meet the plans of suppliers at a particular price and hence there is no tendency to change as it will bring about varying outcomes from the perspective of both buyers and sellers. Therefore, it is the price at which a certain quantity of goods is supplied and bought and where a market is working efficiently.

An example of how a change in demand resulted in a change in price can be taken from the oil industry. From 2000 onwards, the global economy experienced a boom. As a result, demand for oil started increasing exponentially. This resulted in an increase in oil prices and oil prices reached near to $140/barrel in the first half of 2008.

Similarly, the supply of a particular commodity also plays an important role in the price of that good. For example, Silicon chips require a particular type of temperature and hence cannot be produced everywhere. As a result, the supply of these chips is pretty low and despite being produced at a low manufacturing cost, they are sold at a very high price.

The price mechanism keeps markets in equilibrium by changing the prices in response to changes in demand and supply of a particular commodity. For example, the high demand for a particular commodity will initiate a price increase in the market and vice versa. Similarly, low supply will also initiate a price change and vice versa. Market Mechanism thus helps to level the plans of buyers and sellers by making required changes to the price of that good.