Supply and demand

Business

Effects of Natural Calamity on Demand and Supply World events, for instance, drought and floods, have affected demand and supply trends in free markets tremendously. A notable example is floods that occurred in Pakistan (2010). As a consequence, there was increased pricing of cotton. Thus, it was attributed to the drastic reduction in supply; which subsequently led to increase in equilibrium pricing. The event in Pakistan had a shift on its supply curve, but did not affect the demand curve. However, there also exist incidents where change on the demand curve does not affect the supply curve (Krugman, Wells, & Graddy, 2013).

The law of demand in economics states that with all aspects (tastes, expectation, and income) held constant; highly priced commodity will have a low demand (D1). Whereas, that of supply argues that with an increase in supply, the price (P1) of commodity will significantly reduce. An increase in demand (D2) along the curve of supply results to increase in the price (P2) of commodity; and a higher equilibrium quantity. Similarly, a reduction in the level of supply (S1) leads to a shift of the demand curve; to a high price on the equilibrium and a reduced equilibrium quantity.

Efficient market theory refers to an analysis in a free market system regarding behavior of prices. It is tasked with the responsibility of determining whether prices accurately reveal essential information; necessary in determining the proper allocation of limited resources among diverse uses (Slee, 2011).

Surplus implies that the capacity in demand is lesser than that supplied; whereas shortage exists when the quantity demanded is lesser than that supplied. In addition, in a situation where surplus exist there will be a constant drop of prices; similarly, shortage influences increased pricing

(Market Equilibrium 2014).

Appendix A

1. Graph showing equilibrium price and quantity

2. Graph showing shift of the supply along the demand curve

3. Graph showing shift of the demand curve along the supply curve

Reference

Krugman, P., Wells, R., & Graddy, K. (2013). Changes in Supply and Demand. In P. Krugman, R. Wells, & K. Graddy, Essentials of Economics 3rd Edition (pp. 92-94). New York: Worth Publishers.

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Slee, R. T. (2011). Essential Market Theory. In R. T. Slee, Private Capital Markets (p. 584). New York: John Wiley & Sons.