Gas shortage and its effects

Stable equilibrium exists if any deviation from the equilibrium is restored back to the original by the market forces of demand and supply . unstable equilibrium exists if any disequilibrium is forced away from the original equilibrium by the market forces demand and supply. Neutral equilibrium exists if nothing happens after disequilibrium so that a new equilibrium is established. The supply and demand affect market to be disequilibrium.

Disequilibrium is mostly caused by monopoly, “ which is that market in which a single control the whole supply of single commodity which has no close substitute” (Saleemi 1992). For the above case since there was high demand as compared to supply, which was caused by severe damage of a gas pipeline which was supplying gas to Arizona. When the overall gasoline supply does not keep in pace with increased demand ‘ it results in tight gasoline markets with upward pressure on prices’ (Lynn 2001).

There was disequilibrium in the market since the supply of gas was low and the demand was high causing the price to go up due to low supply and very high demand hence pushing the price far away from the original equilibrium is caused by demand and supply to increase or pushes prices far away from the original equilibrium. This makes the demand graph shift inward since there’s increase of price of scarce commodity i. e. gas. Also since there is high increase for prices of scarce commodity the supply graph shift inward so that it can settle in anew equilibrium .

where the two graphs will meet will be a new equilibrium price. The shortage of gas can be seen as economic shortage. Economic shortage is a term describing a disparity between the amount demanded for a product or servie and the amount supplied in a market of that product. A shortage occurs

when there is excess demand; therefore, it is the opposite of a surplus Economic shortages are related to price—when the price of an item is " too high," there will be a shortage. A shortage will compel firms to increase the price of a product until it reaches market equilibrium.

Sometimes, however, external forces cause more permanent shortages—in other words, there is something preventing prices from rising or otherwise keeping supply and demand unbalanced what is termed market disequilibrium. The term " shortage" may refer to a situation where most people are unable to find a desired good at an affordable price. Economic use of " shortage", however, the affordability of a good for the majority of people is not an issue: If people wish to have a certain good but cannot afford to pay the market price, their wish is not counted as part of demand.

In the case of government intervention in the market, there is always a trade-off, with positive and negative effects. For example, a price ceiling may cause a shortage, but it will also enable a certain portion of the population to purchase a product that they couldn't afford at market costs. Economic shortages are generally seen as undesirable since they lead to economic inefficiency. In absence of a price mechanism, resources are less likely to be distributed according to people's utility. Higher transaction costs and opportunity costs (e. g.

, in the form oflost time) also mean that the distribution process is wasteful. Both of these factors contribute to a decrease in aggregate wealth. MAIN CAUSES OF PRODUCT SHORTAGES • Black markets - illegal markets in which products that are unavailable in conventional markets are sold, or in which products with excess demand are sold at higher prices than in the

conventional market. • Artificial controls on demand, such as rationing. • Non-monetary bargaining methods, such as time (for example waiting in line), nepotism r evenviolence. • Pricediscrimination

The inability to purchase a product can not be called shortage of that product, there will be normal increase in the market and those who are capable can buy. Demand and Supply can be illustrated using example below : A price of container $3 per kg, the quantity demanded is 750 kg per day, while the quantity supplied is only 300kg per day, a shortage of 450kg per day. With this shortage, they could sell more if they could only get more gas. In these conditions, merchants find that they can raise prices and still sell all that they can get their hands on. So prices at the stations begin to rise.

If the prices rise to $ 10 per kg, and see that the plans of the buyers to get gas and the plans of the sellers to sell gas just coordinate. At that price, consumers plan to buy 600kg of gas per day and producers are willing to supply 600kg kg per day. The higher price of gas did two things; it got the consumers to reduce the amount of gas they planned to use, while at the same time encouraging producers to offer more gas on the market for sell. If the market had started out at a price of $3per kg, instead, consumers would have planned to buy 750 k gases per day, while producers would have planned to sell 700kg gas per day.

Producers would have found themselves with gas that they could not sell, and would begin to run out of storage facilities. In an attempt to sell off some of their excess gas, some producer would begin to sell at a price below $3 and the price would fall and keep falling until it reached a stable price of $2

per kg, and output and consumption rates matched at 750kg per day. This point is said to be equilibrium in the market, as the buyers' upward pressure on price is matched by the sellers' downward pressure on price, and the plans of the buyers and sellers are coordinated.

The equilibrium price and quantity is where the supply curve intersects the demand curve, where the quantity demanded equals the quantity supplied at the going price. At prices above this equilibrium, quantity supplied will exceed quantity demanded and so a surplus appears on the market. At prices below this equilibrium, quantity demanded will exceed the quantity supplied and so a shortage appears on the market.

Reference 1) Saleemi, N. A. Financial Accounting, Law & Economics. Saleemi Publishers Nairobi Kenya 1992. 2). Lynn, A. (2001) gas and economy, rising economy likely to adversely affect other sector, http//www. uiucedu/