Supply and Demand

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Outline

Introduction

Supply and demand is an essential factor in determining the oddity of the marketplace because it is perceived as the primary determinant in instituting the cost of commodities. The terms supply and demand was used for the first time by JamesDenham-Steuart, the author of the book *Inquiry in to the Political Economy* that was printed in 1767. Demand and Supply refer to the market relations that exist between potential buyers and sellers. This means that the Demand and Supply model determines quantity and price sold in a market. Demand refers to the quantity of goods or services bought at a particular price over a sometime, while supply is the ability and willingness to sell goods or services (Ball, & Seidman, 2012).

Factors That Affect Supply And Demand

Amongst the major factors that affect demand of a product and service in the market is the price of that product and service. According to the law of demand, when the price increases, the demand of the product reduces, but when the price reduces, the demand of the product increases. For instance, in the case of purchasing a car, there is stiff completion, which determines the pricing of vehicles. Another factor that affects demand of products and services is the income of the buyers (Ball, & Seidman, 2012). In the case of cars, the demand is very high when the buyers or population has a good income.

Availability of affordable financing options also affects demand of commodities including cars. When more financing institutions are available, the demand of cars consequently increases. Regarding supply, one influencing factor is accessibility of new technologies. In the case of cars, new technologies facilitate creation of new car models to be supplied the market. Financing availability also affects supply because it helps creation of many cars. Cost of production affects supply in relation to the cost of raw materials, cost of labor, the machinery, and input cost. In addition, government subsidies and taxes affect how much commodity will be in supply (Ball, & Seidman, 2012). Other factors that could cause possible change in supply and demand of a commodity such as a car include customs and beliefs, tastes, and the consumers' preferences of the target market.

Two Substitutes for a New Car

A new car requires a lot of starting capital and may require one to go for a loan. Rather than buying a car, one may opt to go for a different alternative. A new car may be substituted by renting a taxi when one is in need of transportation or by leasing a car for a long-term duration.

Two Complements for a New Car

Complementary goods can be complementary in consumption or in production. In consumption, the complementary goods are those that satisfy the needs or wants when they are consumed jointly and satisfaction is attained when consumed together. On the other hand, in production, these goods are jointly produced with a certain resource, and the production of one, automatically prompts the production of the other. In the case of a car, a complementary good includes petroleum. Another complementary good for a car is leather seats (King, Gans, Stonecash, & Mankiw, 2011).

How the Necessity of A Car Impacts Price Elasticity

Price elasticity refers to the percentage change in quantity demanded divided by the percentage price change. This simply refers to the amount of money an individual consumer is ready to pay for a good or a service. Price elasticity can affect both the demand and supply of a commodity. In the case of a car, the necessity of a car affects price elasticity in the sense that the more essential a car is, the more likely that customers will be ready to spend on buying this commodity (King, Gans, Stonecash, & Mankiw, 2011). In demand, price elasticity explains that the price of a car becomes more elastic when higher prices turn down the consumers who choose to go for a thing that is more affordable.

Availability of more substitutes reduces the necessity of a commodity such as buying a new car. This consequently makes the prices of a car more elastic and it changes with demand. Competition from car manufacturing companies may heighten the customers' need for new cars, and may affect the price elasticity of demand, keeping the more flexible and lowering the prices (King, Gans, Stonecash, & Mankiw, 2011).

Conclusion

In theories of market economy, the theory of demand and supply allocates resources in the most effective way possible. The degree and the quality of marketplace response to changes in the prices of a commodity depend on numerous factors, which include the existence or lack of alternative sources of the particular product or service, and the time available for consumers to investigate alternatives through activities such as window-shopping. Another depending factor is the size of the investment that the purchaser makes. The elasticity of a product or service is an integral factor, especially for small business owners that ought to be considered when engaging in thoughts about altering the prices of the commodities offered.

References

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