Changes in Demand and Supply

Name

Institution

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**Introduction**

The demand and supply of commodities in a market are dynamic and are contingent on a myriad of factors. Changes in the demand and supply figures are tracked using the respective curves. According to Haugen and Heen (2021), demand and supply curves represent causality between the price and quantity of a commodity. From a classical microeconomic theory perspective, the demand curve is a product of the utility maximization phenomenon. Demand and supply are critical aspects of an economy because they track economic growth, as discussed by Raisova and Durcova (2014). Understanding the changes in demand and supply is essential for tracking economic performance and the behavior of consumers and suppliers over time.

**Movement along demand and supply curves and shift of demand and supply curves**

Movement along a demand curve represents a change in the quantity demanded due to changes in the price of a commodity, ceteris paribus (Mankiw, 2018). For example, an increase in the cost of a product from $5 to $10 could precipitate a decline in the quantity demanded from 30 to 15. Such a change represents a movement along the demand curve. Similarly, if the price of a commodity change from $5 to $10, the quantity supplied may increase from 15 to 30. Such a change constitutes a movement along the supply curve.

The shift in the demand for a commodity hinges on numerous factors; one factor is income (Mankiw, 2018). If the consumers’ income increases, the quantity demanded also expands, resulting in an outward shift in the demand curve; this is known as an outward shift in the demand curve. Similarly, if the consumer purchasing power shrinks, the quantity demanded, at the same price decreases, causing the demand curve to shift inwards. However, the responsiveness of the quantity demanded to change in income varies depending on the type of commodity.

Production costs are one of the numerous factors affecting production (Frank et al., 2016). If the costs of production decline, this allows producers to increase their profitability, motivating them to increase the supply. For example, a company incurs a production cost of $5 and supplies 100 units of a commodity. If the production costs reduce to $2.5, the firm could increase its supply to 200 units; by so doing, this would result in an outward movement of the supply curve. An outward shift in the demand curve from DEDE to D1D1, ceteris paribus, results in the change in quantity demanded from QE to Q1; since the supply remains unchanged, this creates excess supply. If the supply curve shifts upwards from S1S1 to S2S2, the quantity demanded changes from QE to Q1 creating excess demand

Equilibrium price and quantity demanded are attained where the demand curve intersects the supply curve. At the equilibrium point, the quantity demanded is just enough for the existing market at the prevailing price. Similarly, at the equilibrium point, the quantity supplied satisfies the quantity demanded at a specific price. According to Carlier and Ekeland (2019), suppliers who cannot match the equilibrium price risk being priced out of the market. Equilibrium is found where the quantity demanded is equal to the quantity supplied at a particular price point.

**Supply and demand of new cars**

The demand for cars in the US has exceeded the supply, thanks to the COVID-19 pandemic. The pandemic forced automakers to temporarily halt production, resulting in a shortage of new cars. According to Vincent (2021), the shortage in new car production has been exacerbated by a chronic shortfall in microchips, limiting automakers’ ability to ramp up their production. Since microchips are used in various electronic products, automakers face stiff competition with other companies, which could see the shortage escalate. All these factors mean that the current shortage of new cars could go on for a while until semiconductor companies can ramp up the production of microchips to match the overall demand. The pandemic has also forced consumers to reevaluate their tastes and preferences due to the threat the disease poses to human survival. Unfortunately, this change in taste and preferences is encumbered by the rising shortage of new cars, thereby driving up the cost of used cars.

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