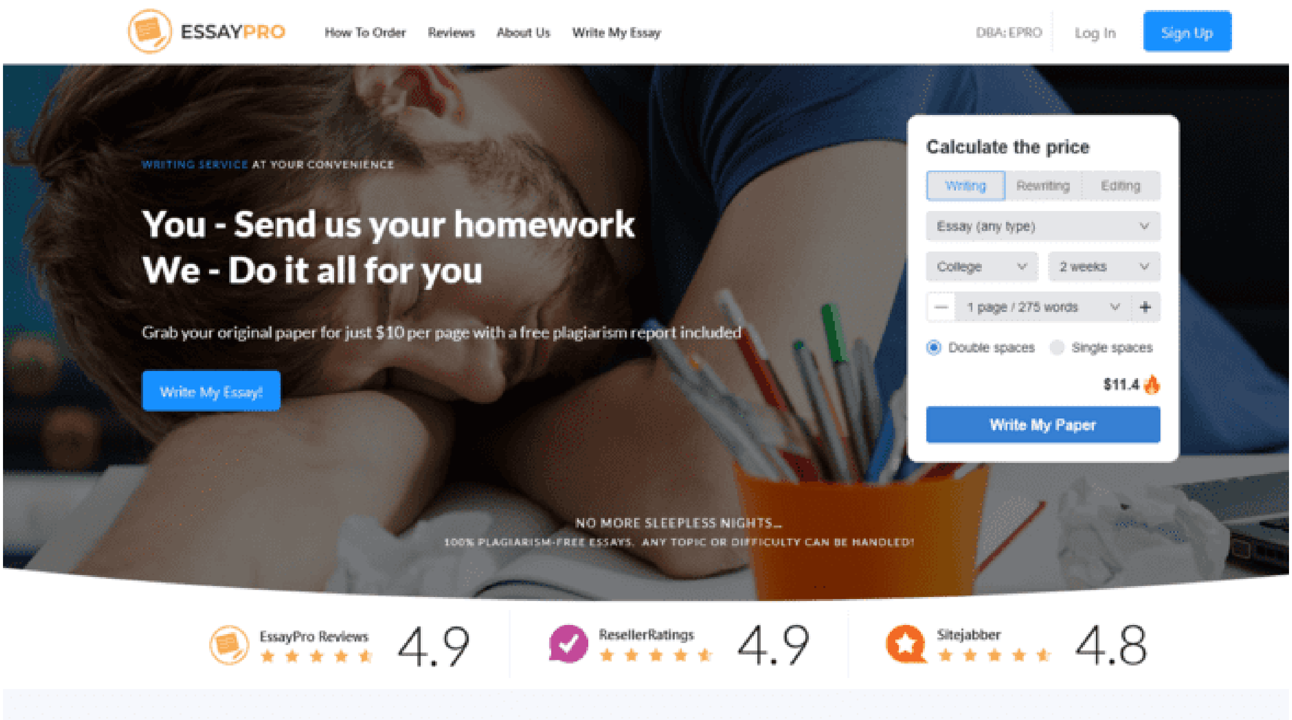
Supply and Demand



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Supply and Demand

Supply and demand is defined as the relationship between the quantity that producers wish to sell at various prices and the quantity of a commodity that consumers wish to buy. In the functioning of an economy, supply and demand plays an important role in the economic decisions in which a company or individual may make.

The quantity of a commodity demanded depends on the price of the commodity, the prices of all other commodities, the incomes of the consumers as well as the consumer's taste. The quantity of a commodity supplied depends on the price obtainable for the commodity as well the price obtainable for substitute goods, the techniques of production, the cost of labor and other factors of production. It is supply and demand that causes a market to reach equilibrium. If buyers wish to purchase more of a commodity than that of which is available at a given price, then the price will to tend to rise. If they wish to purchase less of a commodity than that of which is available, then the price will tend to drop. Consequently, the price will reach equilibrium at which the quantity demanded is just equal to the quantity supplied.

The resources needed to supply commodities often tend to be scarce so that there is always competition. The term “invisible hand” is the natural force that guides the market to this competition for scarce resources. Without the “invisible hand” theory then there would be no competition for resources thus creating a market where prices would be determined almost free of debate. There would be no market to determine set prices for any type of commodity. Therefore, many companies and individuals would lose out on