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Supply and Demand (Economics)

In the business world, it's common to hear and see references to supply and demand. With that said, few individuals possess a thorough understanding of the idea and its wide-ranging impact on markets, prices, and consumers. In short, supply and demand refers to the force of consumers (or how much customers want or need to buy something) in relation to the available supply (or how much of something companies are able to sell). Generally speaking, high demand results in limited supply and increased prices, and low demand results in an ample supply and decreased prices.

This latter phenomenon - the correlation between supply and demand and prices -might sound confusing at first, but it's actually rather simple. When there isn't enough of something available for sale to satisfy demand (or so that everyone who wants this "something" can simply purchase it), manufacturers, or businesses that produce a product or products, charge more; they are able to do so because they aren't faced with competition (as whatever they're selling is in demand and presumably not offered by many other businesses), and customers are willing to pay more to secure said product. Inversely, if something is available in abundance, companies will have to contend with competition, or actions taken by a company that're designed to improve its market standing, sales, and ultimately, profits.

An example will make the concept of supply and demand entirely clear. Imagine that a company creates a fantastic video game system that many customers want to buy. Demand will build both naturally and as the product isn't available to buy (this marketing technique is utilized by many companies today; not being able to purchase something seems to create consumer buzz), and if the supply doesn't increase to give every willing customer a system, prices will rise. In other words, if customers have no other way to buy the system than through its manufacturer, and are having a hard time finding the system to buy, they'll be willing to pay more to buy it.

On the other side of the coin, a product that's not proprietary, is widely accessible, and can be sold by any company - pasta, for instance - will be manufactured, marketed, and sold by a number of businesses. One company might sell a box of pasta for $10, and another company could respond to this price by selling their own pasta for six dollars, and another company could sell their pasta for four dollars, and so on and so forth until the price has been driven down to a very affordable rate. Demand won't be particularly high in this scenario, as there will be plenty of the product at-hand to go around. Moreover, demand comes before competition; if demand is relatively low because a supply is high, prices will fall and some degree of competition will occur.

Did you understand the text?

1) What is supply and demand?

a) The amount of something that's available to purchase
b) How much consumers are willing to pay for a product
c) The maximum possible price for a product
d) The force of consumers in relation to the available supply

2) What prices do high and low demands create, generally speaking?

a) High demand creates low prices
b) Low demand creates high prices
c) High demand creates high prices and low demand creates low prices
d) Both demand types create low prices

More questions about the text:

3) If a company produced a small quantity of an in-demand product, what would happen to prices?

a) They would rise
b) They would fall
c) They would stay the same
d) None of the above

4) Companies sometimes limit their supplies to:

a) Decrease demand
b) Increase prices
c) Increase demand and lower prices
d) Decrease demand and lower prices

5) What is commonly associated with low demand and low prices?

a) Proprietary products
b) Ample competition
c) Items that can be crafted by many companies
d) B and C