

Supply and demand

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In microeconomics, supply and demand is an economic model of price determination in a market. It postulates that, holding all else equal, the unit price for a particular good or other traded item in a perfectly competitive market, will vary until it settles at the market-clearing price, where the quantity demanded equals the quantity supplied such that an economic equilibrium is achieved for price and quantity transacted. The concept of supply and demand forms the theoretical basis of modern economics. In situations where a firm has market power, its decision on how much output to bring to market influences the market price, in violation of perfect competition. There, a more complicated model should be used; for example, an oligopoly or differentiated-product model. Likewise, where a buyer has market power, models such as monopsony will be more accurate. In macroeconomics, as well, the aggregate demand-aggregate supply model has been used to depict how the quantity of total output and the aggregate price level may be determined in equilibrium.