LEARNING JOURNAL UNIT 2

ECON 1580-01 INTRODUCTION TO ECONOMICS - AY2024-T3

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DEMAND & SUPPLY

The laws of supply and demand are central to economics. It describes the interaction between the quantity suppliers want to sell and the quantity buyers want to buy when supply or demand changes, altering the equilibrium price and quantity in the market. There are four basic statements: when supply decreases, supply increases, demand decreases, and demand increases. Each situation has a different effect on market equilibrium. A decrease in supply leads to an increase in equilibrium price and a decrease in quantity. An increase in supply decreases the equilibrium price and increases the volume of trade. When demand decreases, price and quantity fall to a new equilibrium, while increased demand pushes equilibrium towards higher prices and increased quantity supply. Demand changes are understood, providing important insights into market dynamics in industry and finance.

A). Only supply decreases:

When there is a decrease in supply only, it means that invariably there is a shift in supply curve to the left direction which will result in a rise in equilibrium price of a commodity from the original point to a new equilibrium price. This does not shift the demand. curve, but rather a movement along the demand curve occurs to the left according to the law of demand (Mcafee et al., n.d.). The decrease in supply will raise the price of a good or a service and the quantity demanded will fall because of the decrease in Supply.

B). ONLY SUPPLY INCREASES:

If supply only increases, it will cause a shift on the supply curve to the right, making the equilibrium price fall. Due to this reduction in price, the quantity demanded increases. This as well does not shift the demand curve, but a movement along the demand curve will occur in the right direction (Rittenberg & Tregarthen. 2009).

C). ONLY DEMAND INCREASES:

When demand only increases, there will be a shift on the demand curve to the right, resulting in a rise in equilibrium price causing the quantity supplied to increase. In this case, the supply curve does not shift, rather there will be an upwards movement along the supply curve.

D). ONLY DEMAND DECREASES:

If only demand decreases, the demand curve shifts to the left causing the equilibrium price to fall and a reduction in quantity supplied. The supply curve does not shift, but there will be a movement along the supply curve downwards. All these shifts will be caused by some shifters such as complementary goods like mobile phones and sim cards and substitute goods such as tea and coffee.

Wordcount: 424

REFERENCES:

Mcafee, R., Lewis, T., & Dale, D. (n.d.). Introduction to Economic Analysis Version 2.1. https://my.uopeople.edu/pluginfile.php/57436/mod_book/chapter/37625/ECON1580RecommendedTextbook.pdf

Rittenberg, L. & Tregarthen, T. (2009). Principles of Economics. Flat World Knowledge