Brief #2

Jeremiah Navarro

Community College of Aurora

Microeconomics

Nick Parachini

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When consumer preferences for "Good X" decreases and when the cost of inputs for "Good X" increases, generally, a decrease in equilibrium quantity will occur, but equilibrium price will remain unchanged.

These points: equilibrium price and equilibrium quantity, are the market price and market quantity, which neither buyers or producers can alter. The equilibrium point is where the demand curve and supply curve intersect, as shown on Figure 1. This point only changes when there is a shift in either demand or supply, which, in the case of "Good X," there is a shift in both.

Considering the first change that occurs in this scenario--a natural disaster, which causes a decrease in consumer preferences, it is clear to see that people will not purchase the G/S as much because the G/S is not as preferred as it was before, resulting in a decrease in demand, shifting the demand graph itself to the left, as shown on Figure 1.

The second change, an increase in the cost of inputs used to produce "Good X," is an increase in the cost of production, which is directly related to the supply of "Good X." The change this has on supply is that it will decrease supply, because since it costs more to produce, less will be made. This change shifts supply to the left as well, as seen on Figure 1.

Ultimately, these two changes will shift the initial equilibrium point. Assuming these curves shift at the same magnitude in this case, the equilibrium point will shift directly to the left, decreasing equilibrium quantity and keeping equilibrium price the same, as shown on Figure 1.

However, if these changes are not equal, meaning if the change/shift in demand is not the same magnitude as the change/shift in supply, price will not remain unchanged. If demand only shifted slightly, while the shift in supply may be significant, then there will be an increase in price with a decrease in quantity, as can be seen on Figure 2. On the other hand, if demand shifted significantly while supply shifts only slightly, then there will be a decrease in both price and quantity, and this is shown in Figure 3.

While the question does not specify the magnitude of these shifts, there are a number of scenarios that could occur. The decrease in consumer preferences could be in reality a few hundred people refusing to purchase the G/S because of a slight change, or it could be a boycott. On the other hand, the cost of input prices could increase by a little, or it could even triple or something even greater. However, generally, if the change in shift is close, than the price will remain about the same and the quantity will decrease.

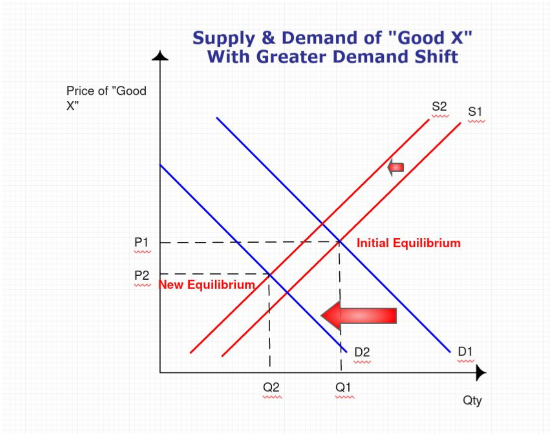

FIGURE 1

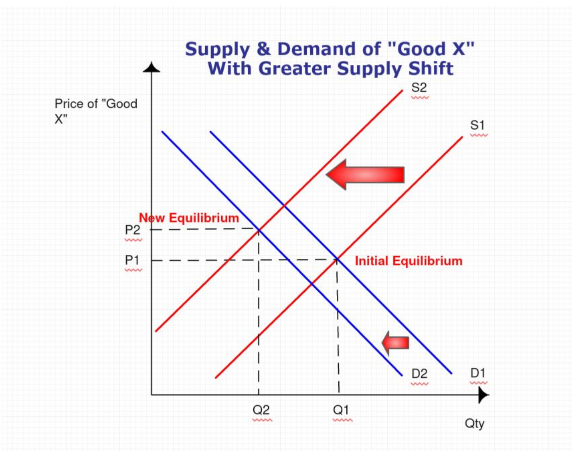

FIGURE 2

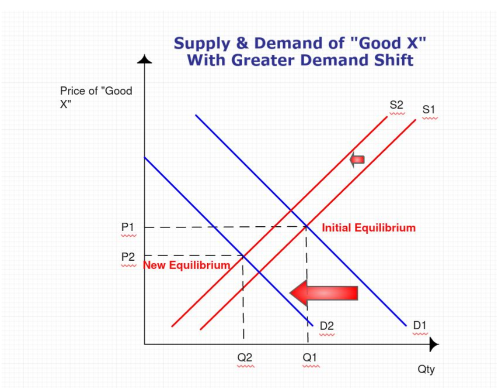

FIGURE 3 (made with creately.com)