Why can’t we invest a good when most people invest it

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When I viewing the Wall Street Daily, I found an interesting article written by Chris (2021), talking about what mistake does a beginner probably make in investment. The key is don’t follow suit – when a lot of people put money in one thing, don’t follow them. The example does this article use is coffee, in the year 2008, 2014 and 2016, the price of coffee goes up and people believe it will continue the trend, however, in the next year the price of coffee falls.

I want to use what I studied in my economic course to analyze this phenomenon. We know, every good has an equilibrium price. That means, when the price higher or lower than this price, the price will close to it automatically. When the price is higher than equilibrium price, business will extend production to get more profit. The result is overproducing, if business wants sold out the goods they produce, they need to reduce the price to attract buyers.

To some goods that is not necessities, people can buy it at a lower price, and sold it at a higher price to gain profit. If a lot of people believe the price of a kind of good will goes up, they will buy it and waiting for sell it. The problem is, this will send a wrong signal to business that this kind of good is well-selling, they can put up the price without worry about unmarketable, and produce more goods to gain more profit. Why does the signal wrong? Because people don’t really need it, people will sell it later. So, business overproducing again, but not stop timely because the price continue goes up. At a very high price, the market can’t handle too much of this kind of good, result in the sales volume decrease. At this time, the price will go down, people are trying to sold the goods they storage. The problem is, they can’t sell them because every people have this good enough. In conclusion, this is the market’s hysteresis quality.

The reason that we can’t invest a good when most people are investing it is, the good is likely to overproducing and will fall the price to the equilibrium price soon.

Chris L. (2021, July 29). *The No. 1 Mistake Amateur Investors Make*. Wall Street Daily. https://www.wallstreetdaily.com/2021/07/29/the-no-1-mistake-amateur-investors-make/