**Microeconomics: Supply and Demand**

Demand is referred to as the number of goods and services purchased to buy a consumer at a given price. A price is the unit amount a buyer pays while the total nits purchased at the given price is referred to as the quantity demanded. When there is an increase in the price of the commodities the quantity demanded decreases. Alternatively, a decrease in the price of the commodity results in an increase in quantity demanded. For instance, when the prices of fuel go up, the consumers find an alternative way to reduce the rate of consumption. Most of them opt to use public transport while others commute. The opposite in effect relationship between the price of goods and services and the quantity demanded is referred to as the law of demand where it surmises that the variable that affects demand is kept constant.

Supply is the number of goods and services a supplier is willing to supply to the consumers at a given price. In supply, the increase in price results in an increase in the quantity supplied. For instance, when the prices of fuel go up, the producing firms and companies are encouraged to dig out more oil, transport large liters of fuel and purchase more tracks for fuel transportation. The firms are actively intending to make profits. In this case, there is a positive relationship between the price and the quantity supplied, that is a rise in price results in an increase in the quantity supplied while a decrease in prices results in a reduction in the quantity supplied. It is referred to as the law of supply. The law assumes that all variables affecting supply are held constant,

Where the supply curve and the demand curve intersect is referred to as the equilibrium price and equilibrium quantity. This indicates that the quantity demanded is equal to the quantity supplied. In case the price of a commodity is below the level of equilibrium then the quantity demanded will be higher than the quantity demanded. Alternatively, if the price of the commodity is above the level of equilibrium then, the quantity supplied will be higher than the quantity demanded.

As buyers and sellers interact, market prices are determined hence the provision of scarce goods and services. A key function of the market is to find the equilibrium price when supply and demand are in balance. At this price, the goods supplied are equal to what is being demanded thereby bringing about the most efficient allocation of the goods. An efficient allocation of goods in a market is one in which no one can be made better off unless someone else is made worse off.

There are influences other than price, however, that can play a role in keeping the market from being truly efficient and at equilibrium.On the supply side, the number of sellers and the look forward can determine the number of commodities to be produced. The final price of the goods and services is determined by the level of technology used, the price of raw materials, and the cost of the production of the commodity.

Most of the economic analyses focus on the market equilibrium where the quantity demanded is equal to the amount of quantity supplied. It was sometimes difficult to determine the level of equilibrium when dealing with the usage of natural and environmental resources. This is due to the limited change in prices as they are false market commodities. To get an accurate equilibrium it best to increase the current costs and the advantages of using natural resources. The proper allocation of resources needs to prevent market failure. For instance, in the creation of externalities occasionally obtained in the absence of property rights inclusive air and water. To acquire equilibrium is through taking the appropriate options in the market like the economic incentives, confirmation of property rights, or involving the government.

On the other hand, on the demand side, income implies. When the income is high, people will purchase more commodities, buy expensive goods, and buy high-quality commodities. The price of the commodities determines its demand. For instance, when the price of a commodity increase, the demand for the commodity will lower hence the consumer will opt for an alternative commodity that is taken as a substitute good. When goods are sold ad used together, are said to be complimentary. This means that a decrease in the price of one commodity increases the demand for the other. A good example of complementary goods is vehicles and fuel. The price of fuel depends on the number of vehicles. When the prices of fuel are too high the number of vehicles reduces while a decrease in the price of fuel increases the number of vehicles on the roads.

Demand and supply are the most important economic concepts in the market. From the previous lesson, market supply means the total amount or the specific commodities present for the consumers while market demand represents the total amount or the specific commodities required (demanded) by the consumers. The alternate change in demand and supply help in the formulation of reasonable prices for goods and services. Where there is higher demand but with low supply will result in to increase in prices while lower demand with high supply will lead to decreased prices of the commodities. For example, when one rent an apartment in a country with a few supply of housing and high demand. In this case, the cost of housing will be higher.

Before renting an apartment, it is important to determine the budget and evaluate all the expenses to be incurred. A budget helps to keep into account any usage of cash. You will be in a position to determine the amount of money on housing hence increasing satisfaction. Economists call this maximizing utility. (satisfaction). In case you allocate more of your income to rent, you will not have money to cater for other expenses. With help of a budget, you will be able to point out the exact amount on rent, and other expenses to maximize utility.

Putting into consideration the mentioned factors above, you come up with a budget to ensure comfortability and to ensure rent income is met. You will not pay more than the expected amount and you will not incur costs not indicated in the budget. The budget should be flexible when it comes to renting due to the supply confined market where the demand for the apartment is high hence increase in the rent amount. To reach flexibility, you will need to cut down on some spending like travel, entertainment, and out diners. This is referred to as the opportunity cost of looking for an appropriate apartment.

Additionally, a landlord will fix the rent of the apartment at the highest price since then the main aim if making profits by renting out the apartment. In determining the price of rent, she needs to have considered the pricing and the demand for an apartment around the neighborhood. At first. if there are ready renters, the rent would be high. But if the rent is higher compared to other apartments around the renters would not be interested. The landlord needs to weigh the situation and come up with a favorable rent. The landlord makes the decision based on demand and supply.

If the landlord decides to attract a large number of renters by reducing the amount of rent compared to other landlords in the neighborhood, he would be losing out on some rental income which will minimize her utility. It would be the decision of the renter and the landlord to make an appropriate decision given any constraints.

A fundamental concept in economics is that of scarcity. Inclusion to its common usage, scarcity in economics means something impossible to find but not unlimited. For example, the total hours in a day are a scarce resource and there is an uncountable time one is involved in working, hanging out with friends, and relaxing. These resources are scarce.

Since the resources are scarce, it is therefore important to make an appropriate decision on how to utilize the resources. For example, suppose you are a juice manufacturer. To produce juice, you will need some scarce resources such as plastic for making the bottles, the workers’ time, machines to fill the bottles, crates for easy transportation, etc. if you intend to make a beverage with one of the bottles instead of juice, your scarce resources forces you to make a decision and a trade-off producing juice or the beverage.

Opportunity cost gives a more understanding to trade off in presence of scarcity. The opportunity cost is the foregone choice made over a commodity. This can be explained through, if one can produce cans of milk and juice, the opportunity cost of producing a can of milk is higher compared to the production of juice can. If one decides to watch a movie instead of hanging out with friends is a form of opportunity cost. One has foregone going out with friends. According to economists, individual must forego some commodities or services to have another. Additionally, an individual may buy a phone. This means that the individual has decided to spend the money on phone rather than buying new clothes. The most important commodity is the opportunity cost.

The logic is applicable for every economic decision: choosing to purchase one commodity over the other means that the buyer has decided to spend resources on one commodity over the other. Opportunity costs are a very important consideration for economists and business people but are sometimes carried away thus not making the best economic decisions.

References

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