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Course

Date

The Equilibrium of Supply and Demand

There is no need to say that supply and demand are the most fundamental concepts in the field of economics. Supply refers to the amount of goods and services that a market under consideration can offer. Demand, in its turn, shows how much a product or service is desired by consumers (Hayes 2017).

The price of a certain product is the reflection of supply and demand on the market in question. In accordance with the law of demand, the higher the price for a certain product is, the lower the demand for it is going to be. Yet, it is vital to mention that in this case, all other factors should remain the same. Speaking about the law of supply, the higher the price, the higher the quantity of a certain product. The reason more supply is going to appear on the market even when it costs more is that selling products at high prices is the best and easiest way to generate revenue.

When the demand and supply are equal, it is said that the economy is at an equilibrium. When a situation like that occurs, it means that the allocation of goods is in its most efficient state (Agarwal 2019). Therefore, consumers, companies, as well as the government of the country are all satisfied with the current economic situation. This way, consumers get the goods they require while suppliers are able to sell all their goods.

What is vital to highlight regarding the topic of equilibrium of supply and demand is that it is possible to achieve it only in theory. The thing is that there are constant fluctuations in demand and supply, which is the reason why the prices for goods and services change all the time.

Another significant aspect to mention is disequilibrium. Whenever the price or quantity is not equal, disequilibrium occurs. For example, the situation of excess supply is created when the price for a

certain product is too high. Thus, there will be allocative efficiency. In case the price is set below the equilibrium price level, excess demand will be created. This way, too many consumers would want to buy a product at a low price but there would not be enough of it for everyone.

Taking everything into account, supply and demand play a vital role in the economy, and the level of prices that is set for each product or service. What is more, the relationship between these two facts is key when one is trying to determine what the forces behind the allocation of resources are. In the ideal version of the market economy, it is possible to allocate resources in the most efficient way.

Works Cited

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