Supply and Demand: Basic Economics

One of the most basis concepts of economics is *Supply and Demand*. These are really two separate things, but they are almost always talked about together.

Supply is how much of something is available. For example, if you have 9 baseball cards, then your *supply* of baseball cards is 9. If you have 6 apples, then your *supply* of apples is 6.

Demand is how much of something people want. It sounds a little bit harder to measure, but it really isn't. To measure *demand*, we can use a very simple numbering system, just like the *supply* one. If 8 people want baseball cards, then we can say that the *demand* for baseball cards is 8. If 6 people want apples, then we can say that the *demand* for apples is 6.

Did you notice that the baseball cards *supply*was one more than the baseball cards *demand*? Did you also notice that the apples *supply* was equal to the apples *demand*? We'll get to that soon.

So we have *supply*, which is how much of something you have, and *demand*, which is how much of something people want. Put the two together, and you have *supply and demand*.

Now, how do you show the relationship between the two? One way is to use the *price* of something. Generally speaking, the price of something will go up if the demand goes up. Why? Because the seller thinks he or she can get more money for whatever he or she is selling.

If more people want something, they will be willing to pay more for it. A good example is the newest basketball shoes. Everybody wants them, and they will be willing to pay more than they normally would to get them. The *demand* goes up. Why? Because more people want them. The *price* also goes up. Why? Because the seller knows he or she can get more money for the product because it is *in demand.*

In the same way, the price will go down when the demand goes down. When the new style of basketball shoes comes out, everyone wants the new shoes. The old shoes don't seem so new anymore. The seller still wants to sell those older shoes, since he or she has a lot still in stock. So, the *price* goes down. Why? The seller hopes that people will be willing to buy the older shoes at a lower price. After all, the older shoes aren't **that** much older or worse than the brand new shoes.

What does all this mean? It means that you can track *supply* and *demand* by also tracking *price*. If something has a high price, you can usually conclude that the *demand* for that item is low. (This is not always the case; it is **usually** the case.) In the same way, if something has a low price, you can usually conclude that the *demand* for that item is high.

Why? First of all, a seller has already paid money for what he is trying to sell. A bookseller has paid $4 for each paperback book he has on his shelves. He has bought 1,000 books and paid $4,000. He is selling those same books for $5 each. He hopes to sell all of them at $5 each and get a total of $5,000.

But what if the *demand* is low and no one wants to buy them? The seller wants to make some of his money back, so he might lower the price. He is already out the $4,000. He can't change that. But he can change how money he is bringing in. If he lowers the price of the books to $4 each, he breaks even on each book but still takes in some of the money he had spent to buy the books in the first place. And this bookseller would have had to lower the price of the books because the *demand* was low

.

The reverse can also be true. If the bookseller decides that he wants to get as much money as he can back, then he might raise the price of the books to $6 each, figuring that he will sell fewer books overall but will get more money for each book he sells.

What does it all mean? *Supply* and *Demand* are two very strong market concepts. Studying the two of them can give you a good idea of what people like to buy and sell. And you can track both *supply* and *demand* by comparing the price of an item over time.

To study *Supply* and *Demand* is to understand economics at its most basic.