Demand And Supply

by Omotoyosi Akmen - Sunday, April 16, 2017

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Hello Candidates, I hope you still remember me, yh my name is still Akmen Omotoyosi, last week we introduced economics to ourselves and we talk about its definition, scarcity and other aspects relating to introducing economics Our topic for today is *Demand And Supply*.

I believed you have all heard of the word demand and supply before either in class or from friend. Anyway, i be explaining what demand and supply mean today, so bear with me please.

Demand And Supply

As we have said during last class, that economics is concerned with consumption and production. Another way of looking at describing it, is in terms of *demand and supply*. Now Let get the explanation of both demand and supply.

Demand is related to wants. If goods and services were free, people would simply demand whatever they wanted, and such wants are virtually boundless{limitless}, perhaps only limited by people's imagination.

But supply, on the other hand, is limited. Supply can be call in other words, *resources*. The amount that firms can supply depends on the resources and technology available.

Now ask yourself, how is demand or supply related to problem of scarcity or scarcity itself?

Given the problem of scarcity, given that human wants exceed what can actually be produced or supply, potential demands will exceed potential supplies.
Society therefore has to find some way of dealing with this problem, in order to, try to match demand with supply. This problem applies at the level of the economy overall: ***aggregate demand will need to be balanced against aggregate supply***. In plain text, total spending in the economy should balance total production.
It also applies at the level of individual goods and services. The demand and supply of cabbages should balance, and so should the demand and supply digital and physical products such as phones etc.

But if the potential demand exceeds potential supply, so here is the question, how are actual demand and supply to be made equal? It is either demand has to be reduced or supply has to be increased or a combination of the two.
This is part of what economics study, it studies how demand adjusts to available supplies and how supply adjusts to consumer demands.

BRIEF: A student just ask me now, that he still doesn't know the definition for both demand and supply. Well here it is, {everything has been explained in text above tho.. but nevertheless} a} **Demand** is the amount of a good or service that consumers are willing to buy at a particular price.

And
b} **Supply** is the amount of goods or services readily available to meets the demand at hand.

Last week I could remember mentioning a sub-topic called microeconomics and macroeconomics.

Economics is traditionally divided into two main branches which are macroeconomics and microeconomics, where *macro* means **Big** and *micro* means **Small**.

Let talk about macroeconomics today and next time we'll talk on microeconomics.

Macroeconomics

Macroeconomics, that is *big-economics* is the branch of economics that studies economic aggregates that is, the *grand totals of the economy*, for example, the overall level of output, employment and goods or services prices.

Meaning that, macroeconomics is thus concerned with the aggregate demand and aggregate supply of the economy as a whole.

Aggregate Demand And Supply

a} **Aggregate demand** is the total amount or level of spending in the economy, whether by the government, consumers, customers outside the country through export or by firms when they buy capital equipment or stock up on raw materials.

b} **Aggregate supply** is the total amount of national output of goods and services in the economy

Back to macroeconomics,
Because things are scarce. societies are concerned that their resources should be used as fully as possible and that over time their national output should grow.

Here is another question, (1) why should resources be used as fully as possible?
(2) If resources are *saved* in one time period surely those saved resources can be used in the next time of period, right?

Answer:
The answer is that, not all **resources can be saved**. For example, if labourers or workers don't go to work one week then that **resources is lost**. Meaning labour is not a type of resources that can be saved or stored for future purposes.

Another question:
(1) Why do societies want growth?
Answer:

If the economy output grows, then more of our wants can be satisfied overtime.
The achievement of growth and full use of resources is not an easy task, however, as elaborated by the periods of high unemployment and stagnation that have occurred from time to time throughout the world{for example, in the 1930s, the early, the early 1980s, the early 1990s and the period from early 2008}. Furthermore, attempts by government to stimulate growth and employment have often resulted in inflation and a large rise in imports. Even when societies do achieve growth, it can be short-lived

Economies have often experienced cycles where periods of growth alternate with periods of stagnation, such periods varying from a few months to a few years, this cycles is called **business cycle** #please note that#.

Bottom-line, macroeconomic problems are closely related to the balance between the total level of spending in the economy{aggregate demand} and the total amount of output in the economy{aggregate supply}.

If aggregate demand is too high relative to aggregate supply, inflation and trade deficits are likely to result.

What Results If Aggregate Demand Is Higher Than Aggregate Supply

When aggregate demand is higher than aggregate supply, inflation and trade deficits or balance of trade result.
Let take it one by one, what is inflation? And what is balance of trade or trade deficits?

a} **Inflation** refers to a general rise in the level of prices throughout the economy.
If aggregate demand rises substantially, firms are likely to respond by raising their prices. After all, if demand is high, they can probably still sell as much as before {if not more} even at the higher prices and thus make more profit. #Or what will you do, if you are the firm#
Bottom-line, if firms in general, put up or increase the prices of there goods, then inflation results, that is, inflation will start saying "hi" to people in the economy.

b} **Balance of trade** deficits are the excess of imports over exports. If aggregate demand rises, people are likely to buy more imports. That is, part of the extra expenditure will go to China gadgets, American vehicles, etc. Also if inflation is high, locally produced goods will become uncompetitive with foreign goods.
In plain text, if inflation is high, we are likely to buy more foreign imported goods and people abroad are less likely to buy fewer of our exported goods.

What Results If Aggregate Demand Is Lower Than Aggregate Supply

If aggregate demand is lower than aggregate supply, unemployment and recession results.

a} **Unemployment** is likely to result from cutbacks in production. If firms are producing less, that means they will require less labour, leading to unemployment in the economy.

Brief : Unemployment is the number of people who are actively seeking for job but are currently without one.
Now Note : not everybody without job are counted as unemployed: there is much debate as to who should officially be counted as unemployed. #I'll explain better next time#

b} **Recession**, economy recession is when output in the economy declines, that is, economic growth becomes negative.
Economy recession is associated with low level of consumer spending. If people spend less, shops are likely to find themselves with unsold stock. As a result of this, they will buy less from the manufacturers, which in return cut down the level of production, which leads to unemployment{a}.

Macroeconomic Policy

Macroeconomic policy, therefore, tends to focus on the balance of aggregate demand and aggregate supply.

Demand-Side-Policy And Supply-Side-Policy

a} **Demand-side-policy**, is government policy established to alter the level of aggregate demand and thereby the level of output, employment and prices.
This policy influences the level of spending in the economy which in turn affect the level of Unemployment, prices and level of production.

b} **Supply-side-policy**, is government policy established to attempts to alter the level of aggregate supply directly.
This policy influence the level of production directly for example by trying to create more incentives for firms to innovate.

Let stop here for today on demand and supply and macroeconomics, our next topic is on microeconomics, please remember that we are still introducing economics.

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My name still remains Akmen Omotoyosi, see you next class, loveee youuuu. Also feel free to ask me any questions through our activity page but first you will need to register, thanks. Will you like to become an economist? if yes, then this experts can make you become one you can also start learning other languages here, thanks ones again.