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THE MARKET MECHANISM: DEMAND AND SUPPLY

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The market is a competitive form of communication between entities.

The market mechanism is the mechanism of interrelation and interaction of the basic elements of the market – demand, supply, prices, competition, and the basic economic laws of the market. Supply and demand are interdependent elements of the mechanism. The former is determined by the solvent demand of consumers and offer a set of goods proposed by sellers. The ratio between them is formed in an inverse relationship, determining the corresponding changes in the level of prices for goods.

In any given time period each buyer of the product receives less satisfaction or benefit, or utility from each successive unit of the product. On a slightly higher level of analysis the law of demand can be explained by the effects of income and substitution. The income effect indicates that at a lower price, people can afford to buy more of this product, indulging in the acquisition of any alternative products factors that affect purchase. They are called non-price determinants: consumer tastes; the number of buyers; income; prices of related goods; waiting.

The proposal establishes the dependence between the market price and the quantity which producers agree to produce and sell. The volume of supply is determined by the total amount of goods sold in the market.

The offer price is called the minimum, or lowest, price at which the seller can still sell goods. Below this price it cannot give up, because otherwise he will suffer the loss and production of goods will be unprofitable. The offer should always be considered from the point of view of its value.

Between price and quantity supplied are directly linked. The sensitivity of supply to price change is determined by the elasticity of supply. The main non-price determinants of supply include the following:

– prices of resources;
– production technology;
– taxes and subsidies;
– prices for other goods;
– the number of sellers in the market.

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