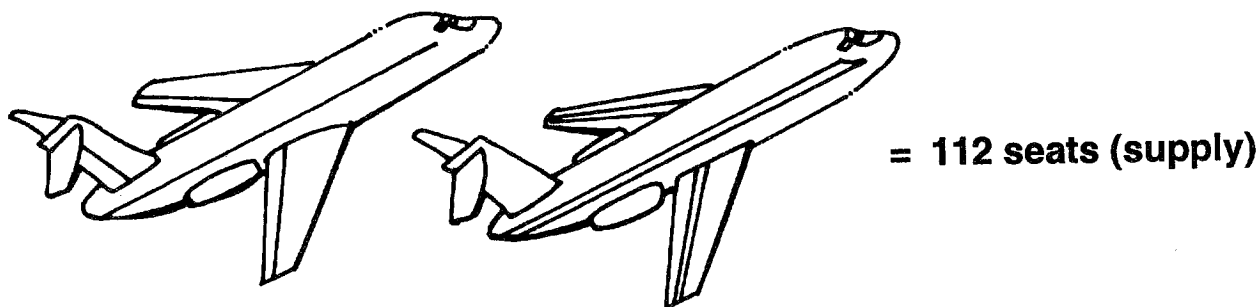


## Supply and Demand—Part 1

**Supply** is the degree of availability of an item, or, in simpler terms, the number of items ready for sale. For example, the supply of airplane tickets to Anchorage, Alaska, is the number of seats available on all of the planes that fly there each day. Two planes fly into Anchorage each day, and they can hold 56 passengers each. This means a total of 112 passengers can fly to Anchorage each day. Therefore, the supply is 112 seats.



**Demand** is the usability of the item or how many people want to buy it.

To continue the example, the demand is the number of people who want to fly to Anchorage each day. If 100 people want airplane tickets to Anchorage each day, then the demand is 100.



If supply is greater than demand (more seats available than people wanting to buy them), it is called a **surplus**. Surplus usually causes the price of the item to go down. When demand is greater than supply (more people want to go to Anchorage than there are seats available), then you have a **scarcity**. Scarcity usually causes the price of the item to go up.

## Supply and Demand—Part 2

Sounds pretty simple so far, right? Well, there are just a couple of small catches. Read on. . . .

**As the price of an item goes up, the supply of that item will also go up.** This is called the **Law of Supply**.

Think about this. When tickets to Anchorage are scarce, the price will rise. We learned that earlier. But as the price goes up, more airlines become interested in scheduling flights to Anchorage. They see how much other airlines are charging to get there and become interested in flying there themselves to make more money. Therefore, more companies will schedule flights to Anchorage. There will be more sellers of flights to Anchorage, which will lessen the demand. Price goes up and supply goes up.

Similarly, let's look at the **Law of Demand**. This principle states that **as the price goes down, the demand will go up**.

Back to Anchorage. The new companies flying into Anchorage over-satisfy the demand for tickets, causing a surplus. This surplus causes companies to lower ticket prices in an attempt to lure customers to buy tickets with their airlines. As the price of the tickets goes down, what would you expect to happen? Right! More people will want to buy tickets because it becomes a better value—a “deal.” But as the demand rises, fewer companies can afford to fly at this price, and the supply goes back down. Price went down, demand went up, and supply went back down.

Ugh! What a vicious circle! To review:

- **Supply** = The degree of availability of an item (what's for sale)
- **Demand** = The usefulness of that item (who wants to buy it)
- **Law of Supply** = As the price increases, the supply increases. This means more sellers, yet fewer buyers.
- **Law of Demand** = As the price decreases, the demand increases. This means more buyers, yet fewer sellers.

