

Supply and Demand

Discover by World Book

Supply and demand are economic forces that determine the amount of a product that is produced and its price. The *supply* of a product is the amount of a good or service that producers and other people are willing and able to offer for sale. Generally, the higher the price is, the greater the amount supplied will be. The *demand* for a product is the quantity of a good or service that consumers are willing and able to buy. Demand also depends on the price, but in the opposite way from supply. Usually, the lower the price, the greater the demand. This is because people who want the product will buy more of it at a lower price and because the low price will attract new buyers.

In a *free market system*, the price of a product tends to settle at a level called the *equilibrium price*. A free market system is one in which people carry out their economic activities largely free from government control. The equilibrium price is a price at which buyers are able to purchase all they want, and at which sellers are able to sell all they wish to sell. As the conditions of supply and demand change, the equilibrium price moves up or down.