How A Higher Price And A Lower Price Affect Consumer And Producer

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Course Code

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Price is an agreed amount paid for when a good or service is bought. Pricing can change with time this is due to many factors that contribute to pricing. Price is defined using the relationship between consumer demand and the producer's supply. When the demand exceeds the supply then the price shoots up so the opposite happens when the price is reduced.

A consumer is a person, a group of people, or an organization that buys goods or services to meet desired needs and wants. Consumers contribute a lot when it comes to pricing because when the demand for a certain good or service is high then the supply increases thus pricing also increases.

Supply is the specified amount of service or good that is available to the purchasers. To the amount of specified price, supply can relate to and within a range of prices presented. Supply also depends on the demand for specified goods or services.

Demand is the consumer’s desire to buy goods and services and the willingness to pay for the amount without hesitation. Market demand is the call for selected goods or services in a market.

According to (Jongwanich et al., 2019) price elasticity is a measure of how reactive the marketplace is to a change in price for a given product. However, price elasticity works in two ways. Price elasticity of demand and price of elasticity in supply. Several factors influence such as the nature of the product whether is a luxurious or necessary product, conversely, the availability of substitutes for the same product and the buyers' speculative or transactional nature of spending is a huge factor of consideration.

The law of Demand and the law of supply decide the price of goods and services offered in a market. Often many producers want to find out whether the demand for their goods and services has increased or decreased, this enables them to price their goods and services in a strategic way to navigate the supply in the market. Through the law of demand and the law of supply, we can explain the effects of price on the consumer and producer in the following way:

Consumers will demand fewer goods when the price is increased. The consumer tends to give up more of their income to get selected goods or services that are more appealing to their desired taste and preference. This is known as the law of demand. When the price is high the demand becomes low thus more consumers tend to buy the goods and services less. In conclusion, when the price of a good or service is increased, the quantity demand goes down.

When the price is high the producer can lose some of the consumers due to the availability of substitutes. Consumers tend to compare prices of goods and services offered by the competitors thus he or she may end up buying the most affordable due to budget constraints. Thus, the producer is likely to lose consumers rather than make profits when the price is high. Therefore, an increase in prices also leads to a loss of consumers to competitors. Producers are likely to get more profit when the quantity price of demand and quantity price of supply is at an equilibrium

More goods are supplied by the producer due to an increase in profit from sales when the price in the market is high. An increase in prices is directly proportional to a reduction in the supply which triggers the demand cycle to increase in the market thus the buyers' willingness to spend is highly influenced by the prices and supply. The producer produces a lot due to high profits if the costs are not increasing as much. This is known as the law of supply. To sum up, low prices mean low supply while unreasonable prices mean high supply leading to more profit.

When the price of a good or service is decreased the consumer manages to buy more. Often customers buy more goods or services when the price is low. This is because the consumer tends to have more resources when the price is reduced compared to when the price is high. The consumer spends a lot when the price is low thus increase in quantity demand. In summary, a reduction in price increases the purchasing power of the consumer thus increasing quantity demand.

When the price of a good or service goes down the consumer tends to buy more of it thus increasing supply. When the supply increases the producer tends to produce more. Remember consumer demand and producer supplies, thus when the demand is high the supply also increases. therefore, a decrease in price affects both the producer positively and negatively.

When the price of goods and services decreases then the supply also decreases. When the price of goods and services reduces then the producer tends to produce less of it due to low profits from the supply. When the price goes low the producer will produce less of it. This is known as the law of supply which is directly proportional to an increase in the price. To sum up, a price decrease is directly proportional to a decrease in supply thus affecting the production rate.

In conclusion, we can deduce that the increase and decrease in price affects consumers and producers in diverse ways. This means that either the consumer or the producers will be affected positively or negatively by the price increase.

Reference

1. Jongwanich, J., Park, D., &amp; Wongcharoen, P. (2019a). Determinants of producer price versus consumer price inflation in emerging Asia. Journal of the Asia Pacific Economy, 24(2), 224–251. <https://doi.org/10.1080/13547860.2019.1574251>
2. Fernando, J. (n.d.). Law of supply and demand in economics: How it works. Investopedia. https://www.investopedia.com/terms/l/law-of-supply-demand.asp