1.9. BASIC ELEMENTS OF SUPPLY AND DEMAND

THE MARKET MECHANISM

Suppose you woke up one morning with an urge for a new stereo set. How would you get one? You wouldn't dream of saying," I'll **head down** to the voting booth and vote for the president who will give me a new stereo. Of course I mean one with twin 100 – watt channels and fancy look."

Or to take an actual historical case, suppose that people decided to travel in automobiles rather than on horseback. How would this desire be translated into action? Would politicians tell workers and firms to move to Detroit to make cars? Would the Senate tell the farmers to **slow down** horse production?

How would government get producers to grow cotton for car seats rather than hay for horses? Of course, the **transition** from horses to cars didn't **occur** under government direction. Instead, consumers bought more cars and fewer horses. With higher profits in car production, automakers **geared up**, new firms like Cadillac, and Ford **sprang up** in Detroit, and workers hungry for good jobs moved there. As horses **languished** in the pastures, horse prices fell and horse breeders turned to other fields. As less hay was needed for horses, the price of hay fell and other crops were planted instead. At the same time, the demand for automative components such as steel, cotton and rubber increased, and the prices of these goods rose, attracting manufacturers into the production of automative-based commodities.

Through just such forces, we have **witnessed** a great revolution in American transportation during this century, with the horse population falling by 90 % while the car population grew from nothing to 160 million **vehicles**. What brought about this revolution? It occurred as changes in tastes and technology operated through the forces of ***supply*** and ***demand***.

Similar revolutions are taking place in the economic marketplace all the time. As people's **tastes** change and the new technologies are developed, the marketplace **registers** these changes in the prices and quantities of inputs and outputs.

Through changing prices and profits, the price mechanism registers changes in tastes, technologies and trading patterns and thereby rations out the available resources among the competing users.

Answer the following questions.

1. How does the market mechanism work on the everyday level?
2. The market mechanism has been working for long centuries, hasn't it?
3. Can governments rule our choice what to buy?