



# What is supply and demand?

KS3

KS4

Ages 11-18 ⌚ 3 min read

Why do concert tickets for a popular artist cost hundreds of pounds? Why does petrol get more expensive in summer? Why did hand sanitiser briefly cost £30 a bottle in early 2020? Supply and demand explains all of these — and almost every price you've ever paid for anything.

## Demand

**Demand** is how much of something people want to buy at different prices. Generally, lower prices mean more people want to buy something; higher prices mean fewer people do. This seems obvious — of course fewer people buy something expensive — but the relationship has important implications. When lots of people suddenly want the same thing (everyone wants hand sanitiser in a pandemic), demand shoots up.

## Supply

**Supply** is how much producers are willing and able to sell at different prices. Generally, higher prices make it more attractive to produce something, so supply increases. Lower prices reduce the incentive, so supply falls.

Imagine a school tuck shop selling sandwiches. On a normal day, 50 kids want sandwiches and there are 50 available — price is £2, everyone's happy. Now it's sports day and 100 kids want sandwiches, but there are still only 50. More people want them than are available. The shopkeeper, seeing the queue, raises the price to £3. Some kids decide it's not worth £3 and go without — demand drops back to 50. The price rose until supply and demand balanced. This balancing point is called the **equilibrium price**.

## What happens when supply falls suddenly?

When a bad harvest reduces wheat supply, bread prices rise. When oil-producing countries cut production, fuel prices rise. When a popular toy sells out before Christmas, resellers charge double online. Reduced supply with steady demand pushes prices up.

## **What happens when supply increases dramatically?**

Prices fall. When streaming made music instantly available to everyone for a fixed monthly fee, the price of individual songs collapsed towards zero. When solar panel manufacturing scaled up massively, solar energy costs fell by 90% in a decade.

Understanding that supply increases tend to push prices down is why technology consistently gets cheaper over time — the same thing that cost £500 five years ago costs £150 today.