Applying Supply and Demand: Real World Examples

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**Applying Supply and Demand: Real-World Examples**

The article is written by Robin Schmahl on October 7, 2019. In the article, "Tightening milk supply may result in higher prices," the impact of supply can be observed on prices. According to the supply theory, when the producers are unable to increase supply, in the long run, they control demand by increasing the price. This statement can be observed through this real-life example, where the author discussed that producers are not willing to increase supply to avoid any loss. They are trying to find out the price level, which is effective for the firms to remain a strong competitor in the international market. The reason for the increase in demand is the increase in the use of cheese at the domestic level. There is an increase of 0.20 dollars in milk price, which means the highest price for the year would be 18.9 dollars while the average price of all-milk is 17.79, which is much better, especially for the farms that are working under interest payment.

S

Equilibrium

QE

P

PE

D

Q

The article indicates that demand somehow equals the supply; therefore, the market is in equilibrium, as shown in the above graph. However, supply is slowly decreasing with time. The reason for the low supply is that the number of cows is decreasing each month, which means supply will further decline, and there is the chance of a much higher price. However, the author highlight that tight supply does not mean that the farm is unable to match the demand; it is just a fact that supply is less than the past. It indicates the potential issue, which means that if the number of cows keeps declining, then milk production will also decline, and farms will be unable to maintain patron milk at eighty-five percent. The author concluded that it is not easy to handle the supply in the short-run; therefore, the result will be the higher prices for the milk in future (“Tightening Milk Supply May Result In Higher Prices | Farm Journal’s MILK Business,” n.d.).

In another article, "Global milk supply growth has starred in 2019," written by Beth Newhart, a report regarding milk supply has been discussed. In the article, reason for low supply all around the world and its factors are highlighted. The article is based on the information of dairy quarterly report, which shows that after the installation of milk supply growth each year by the world's largest exporters, America is still experiencing a mixed market. In addition, the dairy industry is facing a supply issue globally during 2019.

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| --- |
| P  PE1  PE2  S2 S1 S1    E1  E2  D |

Q1 Q2

The graph shows the impact of the decrease in supply is that quantity shift to left and price increases, which results in a leftward shift of supply curve. The reasons for the shortage of supply include weather challenges, higher prices, geographical conditions, economic growth, and lackluster retail sales. All these factors cause supply to decrease, and firms get only one way to control demand that is the increase in prices, as shown in the graph. The article highlights the result of the current situation in the 2020 recession. There will be a 2% decrease in yogurt, a 4% decrease in fluid milk, a 3.9% decrease in the cheese sale. However, it is estimated that sales will increase for butter and cheese through retail prices. In contemporary times cheese and butter prices are decreasing up to 1.3% and 0.2% respectively, which will increase the demand. However, prices of fluid milk remained flat the whole year.

The author concluded that retail prices are the main factor that is resulting in lowering domestic demand growth while other two factors that re high foodservice demand and slow economic growth is negatively affecting the supply of dairy products in America during 2019 (dairyreporter.com, n.d.).

**References**

dairyreporter.com. (n.d.). Global milk supply growth has stalled in 2019. Retrieved November 3, 2019, from dairyreporter.com website: https://www.dairyreporter.com/Article/2019/04/08/Global-milk-supply-growth-has-stalled-in-2019

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