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Demand Supply Curve of a Basic Need Commodity

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Abstract
The Demand Supply theory does not differentiate between the commodities which are essentially required by the people and the commodities which are luxury items affordable by only a select class of people. A typical demand supply curve also does not differentiate between needs and wants and is much influenced by the marketing strategies. A typical demand supply curve is a theoretical concept of a free market situation when there are only wants and needs have already been met. The demand supply dynamics for basic need goods is quite different and the supply or availability of the essential needs of the people can't be left to the vagaries of the market forces. The demand (need) is limited and supply has to be there to meet this need. The government has to intervene to ensure the fulfillment of the basic needs of the people.

Keywords: Affordability, Basic Needs, Demand Supply Curve, Free Market, Humanistic Intervention, Market Forces.

Demand for a commodity is its quantity which consumers are able and are willing to buy at various prices during a period of time. According to Marshall the amount demanded increases with a fall in price and diminishes with a rise in prices. The law of supply applies on the supply side. It states that the supply increases with the rise in prices and decreases with the fall in price. Demand and supply are two counteracting forces and price is determined at a point where these two forces are equal, and that is known as the equilibrium price. Quantity demanded and supplied at this price is called the equilibrium quantity.

Here it would be pertinent to have a look at the demand-supply curve of the conventional economics for a product A (Fig. 1). It is claimed that it is the interaction of demand and supply which determines price. An economic equilibrium is attained when all the agents are choosing the best possible actions for themselves, given their preferences and available opportunities, and where each agent's behavior is consistent with that of the other. The point E in Fig. 1 is the equilibrium point, implying that Qeis the equilibrium quantity and Pe is the equilibrium price.

The demand supply theory in general appeals to the common sense and also appears to be in operation where there is ample competition and the buyers in the market are supposed to be well aware about the commodities and their replacements. But the theory does not differentiate between the commodities which are essentially required by the people and the commodities which are luxury items affordable by only a select class of people.

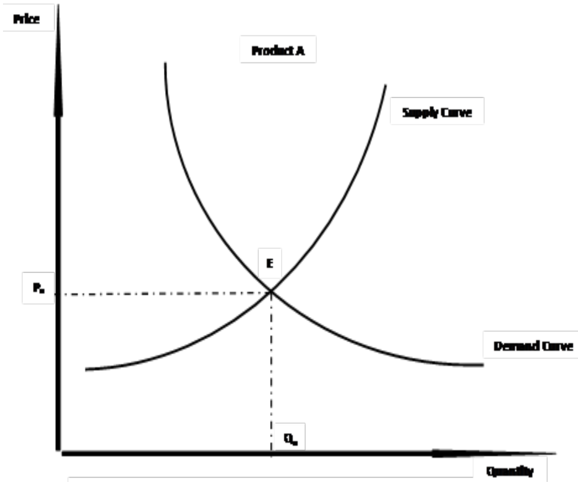

Fig. 1: The interaction of market demand and supply of a product A (not a basic need)

In Fig. 1 it is assumed that the players in the market are individuals who are not necessarily concerned with basic needs. The buyers are those individuals whose basic needs have already been met and they are venturing in the market in search of more pleasures and utilities. The suppliers in the market are those firms who are trying to cater to the desires of such individuals. Such supplier firms may also try to attract more and more of such buyers through advertisements and other campaigns. They may even create demands/desires which might not have been there earlier. The cumulative effect of the efforts of the supplier firms and the desires of the buyers results in an equilibrium when for Quantity Qe the price of the product is Pe. Now it is for the supplier firms to decide whether to maintain the price at Pe or increase/decrease it. The gainers in such a market place are the supplier firms who are able to sell their products in a quantity which results in a net profit. The buyers in such a situation are also not the losers. Even if they don't buy anything they have already satisfied their basic needs. If they buy some products, they may have the satisfaction of having some more products though they may not be necessary at all. Individually some buyers may like to pay more or less but collectively they have contributed in making the equilibrium Price Pe. The overall effect of such transactions is that there is flow of money from some well to do buyers to some supplier firms. Hence, the circulation of money in such a case remains largely within the well-off people. It means that market transactions of luxury and non-essential goods and services make the rich richer. As an example take the case of a branded high end cloth wear. Clothing in general is a need but a costly branded cloth wear is certainly not a need and people can survive without it. Yet some firm comes out in the market with this item. There was no demand for this product, but the concerning firm has produced it and has also created a demand for it through advertisement. The customers of such a product are certainly well-of people who can afford it. Since it is a branded item, the supplier is also a single firm. Hence here, the demand supply dynamics works between a single firm and the select class of customers. According to well-designed market strategies, the prices are moved up and down. If similar products are in the market, prices may be brought down temporarily. Then with some modifications, another similar product may be launched with some additional features, but the price is also high. A general marketing strategy is to bring a product with slightly different features and with differential prices. The options are such that the customer generally buys the costlier variant.

It is evident that a typical demand supply curvedoes not differentiate between needs and wants and is more dependent on the marketing strategies. It is assumed that the essential needs have been met and the basic socio-economic problems of a country have already been solved. So the people are in the market to gain pleasure and satisfy their wants. A free market will never differentiate between needs and wants. It will not care whether people are starving, don't have shelter or are devoid of health care. A free market is a ruthless place. It is for a responsible government to ensure that the basic needs of the people are met and all the citizens of the country enjoy a basic and dignified standard of living. For this the government cannot rely on the theoretical strategies of economics. It has to act directly for the welfare of the people. The government should not collude with the market forces and let them have full sway. It should in its policies emphasize needs over demands and differentiate between essentials and non-essentials. A country has limited resources. The government has to see that the resources are first utilised to ensure a basic standard of living for all and then the extra resources are utilized in such a way that the economic activities have a distributary effect i.e. there is a minimization of inequality. If inequality increases and the resources of the country are being concentrated in a few hands, it means that the government is not acting responsibly.

Now, let us examine the demand-supply curve of a product B which is a pure basic need to be consumed, an essential commodity for which there is no replacement e.g. a particular food grain. Since it is a need it will be required in an estimated quantity according to the population of the region. Here the demand is not dependent on any other extraneous factors and it is not created but is already there. In such a case the Demand (Requirement) curve will be a vertical line at quantity R(Fig. 2). Supply curve will remain sloping as before but after the equilibrium price is reached it will slope down since now there is no more demand. Pe is the equilibrium price at which the suppliers will be making the maximum gross profit. If the supplied quantity is R then there is no glut in the market. If the supply is increased to R2, the increased supply will have no demand and so the price again will have to be decreased. In case of essential food grains, the extra supply in the market may be utilized to store it as a buffer or food security.

Let us examine the basic question of affording a basic need. Even if every individual is capable of paying a price A2 (Affordability), then also they will purchase their requirement at price Pe only because that is the equilibrium price which is determined by the market. Theoretically no individual will purchase the commodity in a quantity which is more than his or her requirement or at a price which is more than the market price. But suppose there are certain individuals who are able to afford a price of just A1. In that case they would be able to purchase a quantity R1 only. They will not be able to purchase their full requirement and they will get impoverished by a quantity R--R1. But since it is a basic need, it becomes the duty of the government to intervene either in the form of subsidy or otherwise so that the difference of price Pe—A1or quantity R--R1 is made up. In fact the economic policies have to be such that for basic needs, all individuals and households should have affordability A≥Pe. This is the essence of humanistic intervention. Conventional economics focuses on wants and demands. This approach neglects the basic needs and the marginalized people. The result is that the rich get richer and the poor poorer. The circulation of wealth and resources is such that there is an aggregation with a few affluent people and corporate at the cost of others. The flow of wealth created is more towards the rich and the corporate than otherwise. In fact the welfare interventions by the governments should have been need based. With this approach the flow of wealth created would be more towards the general masses, because the focus of economic activity is essential goods and services which is a concern of all especially the poor and the marginalized. This will tend towards an equitable circulation of wealth and resources.

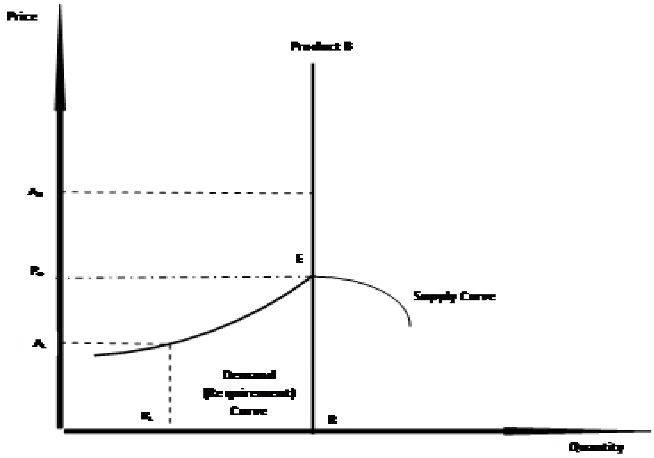

Fig. 2: The Interaction of market demand and supply of a product B (a basic need)

The gist of the issue is that atypical demand supply curve is a theoretical concept of a free market situation where there are only wants and needs have already been met. There the demand and supply are in dynamic interaction. Big business houses with appealing market strategies may even create a demand in society for which there is no need at all. The demand supply dynamics for basic need goods is quite different and can't be left to the market forces. Here the demand (need) is limited and the supply has to be there to meet this need. The government has to intervene to ensure the basic needs of its people.

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