Topic: Demand and supply of certain resources in Australia or any other country and factors other than price which affect demand and supply.

Introduction:

In economics, the demand of any commodity is defined as the amount of that particular commodity which the consumer desires. Whereas, the supply may refer to the amount of a particular commodity that the laborers, producers, buyers etc. are prepared to offer in the market (Mankiw, 2014). The quantity demanded with respect to each and every price is explained as the total of the demands (individual) of the aggregate consumers in relation to that price. The amount of goods and services that the producers are prepared to sell at a specific price and time is known as the quantity supplied. The law of demand explains the relationship between the price and the quantity demanded, having other things constant i.e. with the rise in the commodity prices there is a decrease in the quantity demanded, whereas, the law of supply states that with the rise in the commodity prices there is an increase in the quantity supplied (Mansfield & Yohe, 2000). The market equilibrium is achieved where the economic forces of demand and supply are in a state of balance keeping other things constant. The main determinants of the demand are the price of the particular commodity that is being worked upon, other commodity prices and income and taste of the consumers. The major determinants of supply is dependent upon the speculation and future expectation of the price level of the commodity in question and the cost associated with the factors of production etc (Salvatore, 2008).

The demand-supply and the movement and shifts of the curves:

There is a negative relationship between the quantity demanded and the price and a positive relationship in between the quantity supplied and price of the commodity in question. If the price of the commodity changes, this results in the movement along the demand curve but if there is a change in the determinants of demand other than the price of the particular commodity i.e. income, taste or preferences, then the demand curve shifts (Baumol & Blinder, 2015). For example with the increase in the consumer income, the demand curve shifts to the right. Same is the case with the supply, the increase or decrease in the price level of the commodity will cause a movement along the supply curve and an increase or decrease in the factors other than the price will cause a rightward or leftward shift in the supply curve (Shepard, 2012).

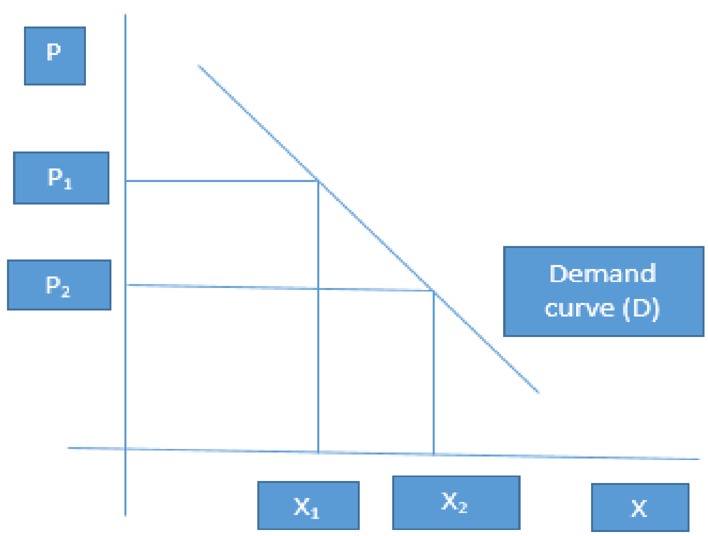

Fig.1

Fig 1. Shows as the price of the commodity changes from P_1 to P_2 there is a change in the quantity demanded from X_1 to X_2 along the demand curve.

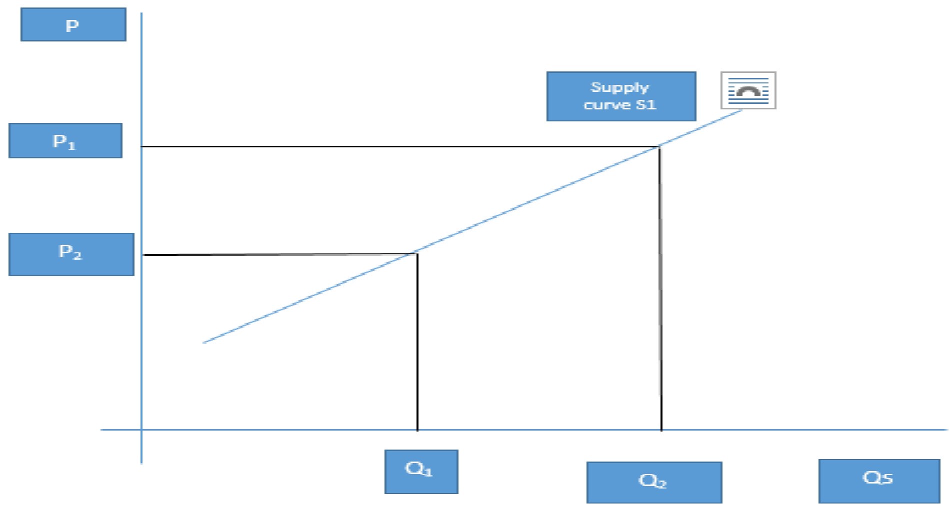

Fig.2

Fig. 2 shows that with the increase in the price level of the commodity from p2 to p1, the quantity supplied increases from Q1 to Q2.

The analysis of demand and supply of resources of Australia:

The Australias current economic slump has been described as ‘economic dog days’ by one of the leading economists in the country, Ross Garnaut. According to him this slump will get stickier by the passing of the days because of the fact that the crisis is in relationship with the countries largest leading business partner i.e. China and the product which is considered as Australia’s biggest export i.e. iron ore (Garnaut, 2015).

The demand for steel in China has reduced recently and things have not yet improved. This has resulted in a slow down in the export of the Australian iron ore to China (Garnaut, 2015). Previously, the Australian economy boomed due to the fact that the demand of the Australian iron ore was sky high resulting in high demand for the iron ore in China. According to the report by the World bank, the effect of the meagre growth of the economy of China will have a large impact on the exporters of the commodities to China such as New Zealand and Australia, the countries which have direct linkage in the supply chain of the region (Garnaut, 2015). While delivering a speech, the Prime Minister of Australia, Mr. Abbot revealed a very grim picture. The reduced prices of iron ore would cause a projected decline in the revenues of Dollar 30 billion in the next four years (Garnaut, 2015). As the government was able to pass its first budget in last May 2015, the prices which fell to $95/tonne recently, have become halved. The secret behind the Australian economic boom which was continuous for the past 23 years was because of the fact that the country's mining sector was performing wonders but due to the decline in the investment associated with the industry, it has caused the growth to slow down to 0.5% in the year 2014's last quarter (Garnaut, 2015). The governer of central bank, Glenn Stevens termed the growth in the sector as below the trend level.

Theoretically, the fall in the demand of steel have been the exogenous factor, which has shifted the iron ore demand curve to the left (Rittenberg & Tregarthen, 2009). The point here to note is that it is not the prices of the commodity which is directly causing the quantity demanded to rise or fall but the negative demand shock which has impacted the whole of the demand curve to shift to the left (Gans, et al., 2011).

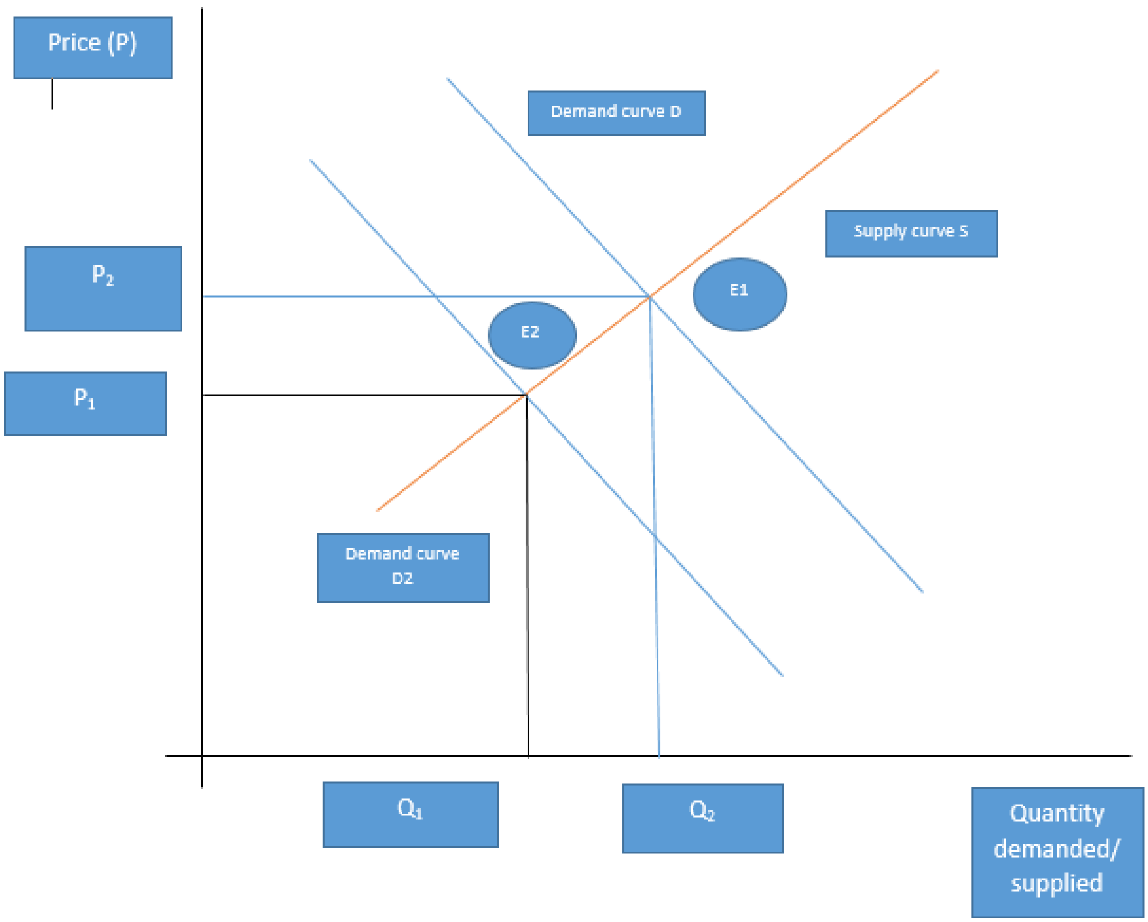

Figure 3.

Figure 3 shows, how the reduced demand of Australian iron ore due to slow economic growth of China has caused the prices of iron ore to decline. With a low demand for steel in China, the demand curve of Australian iron ore which is a major export of the country, shift to the left from Demand curve D to demand curve D_2 (Mankiw, 2014). This has caused the market equilibrium to shift from original point E_1 to E_2, resulting in the prices to reduce from P_2 to P_1 and the quantity to reduce from Q_2 to Q_1.

Conclusion:

From the analysis of the mining sector it can be concluded that the demand and supply of the iron ore or any other commodity is not only dependent upon the prices of the commodity itself but there are factors other than the price for example supply shocks, demand shocks, increase or decrease in the consumer income, the change in the preference of the buyers and the change in the taste of the consumers etc. that causes the demand and the supply of the particular commodity to change, resulting in the shifts in market equilibrium.

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