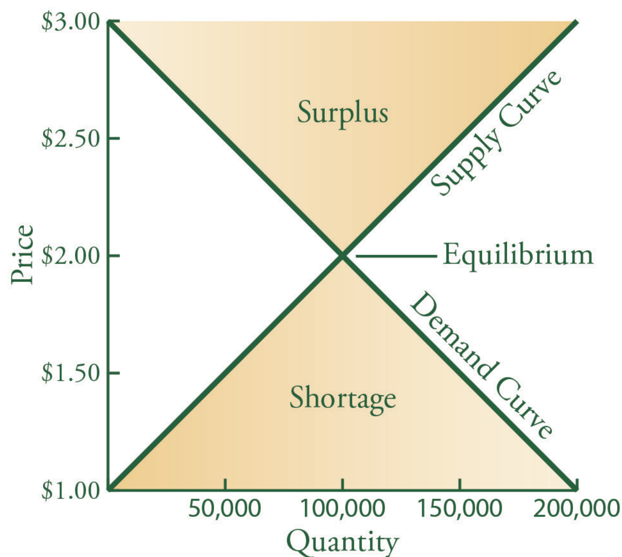

The point at which the supply curve and the demand curve cross is called the *equilibrium price* or *market clearing price*. This is the price for which suppliers are willing and able to offer their goods and services and the price that consumers are willing to pay. Theoretically, this is the price that will bring about the sale of all of a particular product or service in the market. Thus we see that supply and demand affect the quantity of goods and services offered in the market and the price charged for those goods and services.

In our example, consumers would be happy to buy a large quantity of cards at $1.00 each, but Howdy-Do could not supply them at that price and make a profit. On the other hand, Howdy-Do would be happy to supply a large amount of cards at $3.00 each, but the company would not sell any. On the graph, we see that the equilibrium price for greeting cards is $2.00. The conflicting principles mentioned above intersect at the equilibrium price. We also see the illustration of surplus and shortage. Surplus exists when supply exceeds demand, and shortage exists when demand exceeds supply.

The example used here and the laws of supply and demand are a simple theoretical construct designed to help us see how the complex economic market works. Things usually do not work out this neatly. It is rare that exactly 100,000 greeting cards are sold for exactly $2.00 each and then the shelves are bare. Some cards will not be sold even at the equilibrium price, perhaps because the supply of cards in one location exceeds the demand there.

These leftover cards might be sold at a deep discount to a bargain store, where they are offered at a much lower price; or they might be collected by the distributor and sold to a recycling company that will turn them back into plain paper to be used for some other product. On the other hand, the supply could theoretically be exhausted and some consumers would have to use plain paper or email to send their greetings.

Which Comes First: Supply or Demand?

Does a producer develop a product or service and then develop a market for it among buyers, or does a demand for a product or service arise among consumers and then producers respond by making goods that meet that demand? The answer is yes; it can happen both ways. Few producers will pursue an idea for a product just on the hope that sufficient demand will develop. History is littered with inventors' big ideas that went nowhere with the public. Instead, producers usually try to meet the wants and needs that they perceive already exist among potential customers.

Sometimes products come to market because of accidental discoveries. This was the case with Post-It Notes. In 1970 a 3M Company researcher was trying to develop a strong adhesive, but instead he came up with a weak adhesive that didn't stick very well and thus didn't seem to have a market. Then four years later, another 3M scientist was singing in his church choir. The markers he used to help him find the songs kept slipping out of his book. He remembered his co-worker's weak adhesive, applied some of it to small pieces of paper, and the Post-It Note was born. Through 3M's effective marketing