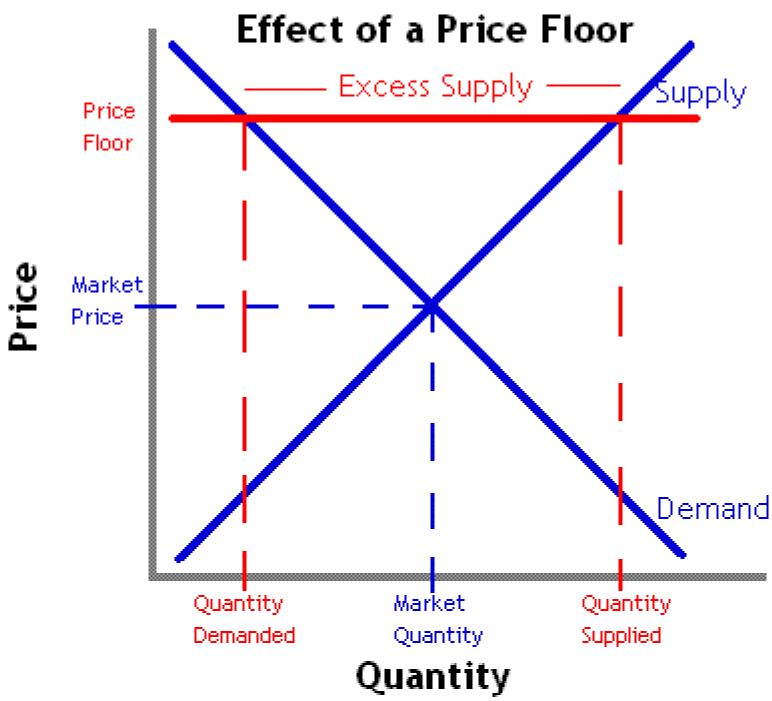
In the analysis of market equilibrium, specifically for pricing and volume determinations, a thorough understanding of the supply and demand inputs is critical to economics. Surpluses and shortages on the supply end can have substantial impacts on both the pricing of a specific product or service, alongside the overall quantity sold over time. Shifts such as these in the supply availability results in disequilibrium, or essentially a lack of balance between current supply and demand levels. Surpluses and shortages often result in market inefficiencies due to a shifting market equilibrium.

Surpluses

Surpluses, or excess supply, indicate that the quantity of a good or service exceeds the demand for that particular good at the price in which the producers would wish to sell (equilibrium level). This inefficiency is heavily correlated in circumstances where the price of a good is set too high, resulting in a diminished demand while the quantity available gains excess. There are substantial business risks inherently built into the concept of surpluses, as the general outcome will be either selling off inventory at sub-par prices or leftover unsold inventory. In both scenarios businesses will be forced to minimize margins or incorporate losses on that particular good. Governmental intervention can often create surplus as well, particularly through the utilization of a price floor if it is set at a price above the market equilibrium .



Price Floor

A price floor ensures a minimum price is charged for a specific good, often higher than that what the previous market equilibrium determined. This can result in a surplus.

In a perfectly competitive market, particularly pertaining to goods that are not perishable, excess supply is equivalent to the quantity available in the market beyond the equilibrium point of intersection between supply and demand. In this theoretical scenario the equilibrium point will transition towards a lower price point due to the increased supply, which will in turn motivate consumers to purchase a higher quantity as a result. This allows the economic model of the market to correct itself.

Shortages

Inversely, shortage is a term used to indicate that the supply produced is below that of the quantity being demanded by the consumers. This disparity implies that the current market equilibrium at a given price is unfit for the current supply and demand relationship, noting that the price is set too low. It could also indicate that the desired good has a low level of affordability by the general public, and can be a dangerous societal risk for necessary commodities. Indeed, Garrett Hardin emphasized that a shortage of supply could also be perceived as a 'longage' of demand, as the two are inversely related. From this vantage point shortages can be attributed to population growth as much as resource scarcity.

In a perfectly competitive market, a shortage in supply will ultimately result in a shift in the equilibrium point, transitioning towards a higher price point due to the limited supply availability. This will prioritize who receives the good or service based upon their willingness and ability to pay a premium for the specific item in demand, leveraging those along the demand curve who are at higher levels with higher ability and willingness to pay.

Source: Boundless. “Impacts of Surpluses and Shortages on Market Equilibrium.” *Boundless Economics*. Boundless, 26 May. 2016. Retrieved 12 Sep. 2016 from https://www.boundless.com/economics/textbooks/boundless-economics-textbook/introducing-supply-and-demand-3/market-equilibrium-48/impacts-of-surpluses-and-shortages-on-market-equilibrium-180-12278/