**Essay Question 8**

**Explain why the price of coffee bean tends to vary more extensively than the price of designer coffee (when both demand and supply increases).**

Introduction

The price and quantity of coffee or coffee bean can be attained when there is market equilibrium in these respective markets when the demand and supply of the coffee bean or designer coffee intersects respectively in both market. However, the extend of change in price of coffee bean tends to vary more extensively than the price of designer coffee due to the variation in the price elasticity of demand and supply for both designer coffee and coffee bean.

Main body

Price of coffee bean will vary both extensively when there is increase in demand and supply as the demand and supply of coffee are both price-inelastic. When demand of coffee increases, the price rises more extensively as the supply of coffee bean is price-inelastic, implying that the increase in quantity supplied is less than proportional than the increase in price. This will reflect the change in quantity supplied is unable to respond to increase in demand due a price-inelastic supply condition, creating an excess demand condition they will prompt price to increase excessively. On the other hand, the increase in supply of coffee bean will contribute to the extensive fall in price when the demand is price-inelastic since the fall in price will contribute to a less than proportional increase in quantity demand.

As for price of designer coffee, it will vary less than extensive when there is increase in demand and supply of designer coffee as the price-elasticity of demand and supply are both price-elastic. When demand for designer coffee increases, the rise in price will be less extensive since the supply of designer coffee is price-elastic, implying that the increase in quantity supplied is more than proportional to the rise in price. This will mean that the increase in quantity supplied is able to respond to the increase in demand due to a price-elastic supply condition, implying that there will be no excessive supply condition and thus, price will not fall extensively.

On the other hand, when the supply of designer coffee increases, the fall in price is less extensive since the demand for designer coffee is price-elastic, implying that the increase in quantity demanded is more than proportional to the fall in price. This will mean that the increase in quantity demanded is able to respond to the increase in supply due to the price-elastic condition, implying that that there will be no excess demand condition and price will not fall extensively.

S0 (price-inelastic)

Price of Goods

Price of Goods

S1 (price-elastic)

S1

S0

P1

P0

P2

P2

D1 (price-elastic)

P0

P1

D1

D0 (price-inelastic)

D0

Q0

Q2

Q1

Quantity of Goods

Quantity of Goods

Q2

Q1

Q0

Diagram 2

Diagram 1

As seen from diagram 1, the increase in price due to an increase in demand will be more extensive from P0 to P1 when the supply is price-inelastic along supply curve S0. As compared to supply curve S1, the increase in price from P0 to P2 is less extensive when there is an increase in demand as the supply S1 is price-elastic.

Also, as seen from diagram 2, the fall in price due to an increase in supply will be more extensive from P0 to P1 when the demand is price-inelastic along the demand curve D0. As compared to demand curve D1, the decrease in price from P0 to P2 is less extensive when there is increase in supply as the demand curve D1 is price-inelastic.

The price elasticity of demand for coffee bean is price-inelastic as there is limited availability of substitutes for the use of coffee bean for production of coffee production since it is the only form of resource, being a derived demand based on demand for coffee producers. Furthermore, the demand for coffee is planned and stipulated and will not correspond extensively to sudden fluctuation in the price contributed by increase in supply.

As for the price-elasticity of supply of coffee bean, it is price-inelastic as there is limited capacity of production due to land space and long gestation period of agricultural products, implying that quantity supplied cannot be increased extensively in the short run, contributing to the price-inelastic supply condition.

For price-elasticity of demand for designer coffee, it is price-elastic as there is extensive availability of substitutes since it is a beverage that can be easily replaced by a wide range of alternatives like carbonated drinks and other designer coffee retailers. Since the proportion of income spent on designer coffee is large for average consumers like students, the designer coffee is considered a normal good and the consumer is price-sensitive towards it, influencing the demand to be price-elastic. Furthermore, it is often considered a social activity when consumers patronise the designer coffee retailers, implying that it has a low degree of necessity of demand and thus, the demand is price-elastic.

As for the price-elasticity of supply of designer coffee, it is price-elastic as there is lesser limited production capacity since coffee powder can be stored in anticipation of demand. Furthermore, there is a short production period which means that the supply can be increased easily in the short run to meet demand. This capacity of production can also be raised easily to increase the supply of designer coffee as the cost of labour is cheap, making it easy for the retailer to increase production to increase quantity supplied in the short run.

In sum, the nature of the market for coffee bean and designer coffee differs in term of their demand and supply, influencing the price-elasticity of demand and supply. This will shape the extent of change in price and output when there is a change in price and output when there is a change in market demand and supply, which affects the market equilibrium.