

“Sold out” tells us that the available stock has been purchased. It does not tell us how many people still want the product, whether the business could profitably make more, or whether the next release will sell just as quickly. A designer might sell fifty jackets within minutes because thousands of customers want them. Another might sell five because only five were available. Both can announce a sellout, but the situations are different. Understanding supply and demand helps us look behind the announcement and examine the relationship between buyers, sellers, quantities, and prices. It also helps explain why an admired product sometimes struggles commercially, why an ordinary item can suddenly become expensive, and why lowering a price does not always improve a business’s results. These relationships become clearer when we begin with what people are actually willing and able to do.

Demand describes the quantities of a good or service that buyers are willing and able to purchase at different prices during a specified period. Every part of that definition matters. Someone might admire a designer’s jacket without wanting to purchase it. Another person might want it but be unable to afford it. A third might purchase it for \$80 but decline at \$160. Demand brings willingness, purchasing ability, and price together. The period matters too: demand for two hundred jackets in a week presents a different business opportunity from demand for two hundred over five years. Economic demand therefore differs from general enthusiasm or human need. A product can receive thousands of compliments without generating enough purchases to support its production. That distinction helps an entrepreneur turn encouragement into questions that can guide decisions: which customers would buy, at what prices, and how frequently? OpenStax defines demand in terms of this relationship between price and purchasing quantities.

Consider an imaginary business selling everyday backpacks. At \$40, some customers might replace an aging bag immediately, while others might purchase one as a gift. At \$80, more people might repair what they already own, choose another brand, or postpone the purchase. This illustrates the *law of demand*: other things being equal, the quantity demanded generally falls as a product’s price rises and rises as its price falls. “Other things being equal” means we are holding relevant conditions steady to isolate the effect of price. We are not simultaneously changing the backpack’s quality, customers’ incomes, or the number of people shopping. The response also need not involve every customer. Some may purchase at either price, while others change their decisions. The overall quantity reflects those decisions together.

Now stand on the seller’s side. *Supply* describes the quantities producers are willing and able to offer at different prices during a specified period. A backpack company may have skilled workers and attractive designs, yet supplying more bags requires fabric, zippers, equipment, working time, and a way to deliver finished orders. In the standard supply relationship, a higher selling price makes producing additional units more attractive, other things being equal. Suppose fulfilling extra orders requires overtime or purchasing materials from a more expensive supplier. A price that covers an ordinary production run

might not justify those additional expenses. A higher price could make the extra production worthwhile. Supply therefore concerns what sellers can and will offer under particular conditions, rather than simply how many products exist somewhere in a warehouse.

To bring the two sides together, imagine a small market in which several sellers offer comparable backpacks. All the following figures are invented to illustrate the relationship, and every quantity refers to one month. At a price of \$40, buyers are willing and able to purchase 120 backpacks, while sellers are willing and able to supply 60. At \$60, buyers want 90 and sellers offer 90. At \$80, buyers want 60 while sellers offer 120. Each price produces a different relationship between buying plans and selling plans. At \$60, those plans match. Economists call this *equilibrium*: the point at which quantity demanded equals quantity supplied. The *equilibrium price* is \$60 in this example, and the *equilibrium quantity* is 90 backpacks per month. The [Federal Reserve's explanation of equilibrium](#) describes this matching of buyers' and sellers' intended quantities.

At \$40 in our example, customers want 120 backpacks but sellers offer only 60. The difference is a *shortage*: quantity demanded exceeds quantity supplied at the prevailing price. Some customers cannot obtain what they are prepared to buy on those terms. Sellers may respond by raising prices, which can discourage some purchases and encourage additional supply. However, a business may instead keep its price and use waiting lists, purchase limits, or advance orders. At \$80, the situation reverses. Sellers offer 120 backpacks, but customers want only 60, creating a *surplus*: quantity supplied exceeds quantity demanded at that price. Unsold goods can encourage markdowns or smaller future orders. A shortage or surplus is therefore a relationship at a particular price and time. It does not necessarily mean that society permanently lacks the resources to make the product or that the product has no useful purpose.

TELFAR provides a real example of a business developing another way to connect customers with production. Founded by Telfar Clemens in 2005, the Black-owned fashion label created its Bag Security Program as a limited ordering event. Customers could preorder bags in their preferred colors, sizes, and quantities, with delivery taking place months later. The company's [description of the Bag Security Program](#) explains that arrangement. A *preorder* is an order placed before the item is ready for delivery. Viewed economically, this approach can give a producer clearer information about purchases while allowing customers to secure future delivery instead of competing only for stock already available. Waiting becomes part of the exchange. The program illustrates business creativity in coordinating supply and demand; increasing a price is one possible response to strong purchasing interest, but it is not the only response.

An especially useful distinction concerns a change in *quantity demanded* versus a change in *demand*. Return to the imaginary backpack market. If the price falls from \$80 to \$60 and purchases increase because the bags became cheaper, that is a change in quantity demanded along the existing demand relationship. Now suppose a large new college opens nearby, bringing additional potential customers into the area. More

backpacks might be wanted at \$40, \$60, and \$80. The demand relationship itself has changed. Economists call this a *shift in demand*. When shown on a graph, a demand curve is simply a visual representation of the quantities buyers would purchase at different prices. Moving along the curve represents a response to the product's own price; shifting the curve represents a change in another influence. This language helps us identify the cause of a change rather than treating every increase in sales as the same event.

Demand can shift because of changes in income, preferences, the number of buyers, expectations, or the prices of related products. *Substitutes* are alternatives that can satisfy a similar purpose: a backpack and a messenger bag might be substitutes for carrying school materials. If messenger bags become much more expensive, some shoppers may become more interested in backpacks even if backpack prices remain unchanged. *Complements* are products often used together, such as a game console and games made for that console. A change affecting one can influence demand for the other. Income matters as well, although higher income does not increase demand for every product; some purchases are replaced as buyers gain additional options. [OpenStax explains these influences on demand](#). The practical habit is to look beyond the item itself and examine what has changed in customers' circumstances.

Supply has a similar distinction. If a backpack's selling price rises and producers respond by offering more, that is an increase in quantity supplied along the existing supply relationship. If a new cutting method reduces wasted fabric, producers may be able to offer more backpacks at the same selling prices. That represents an increase in supply. Conversely, if fabric becomes more expensive, some production may become unprofitable at previously acceptable prices, reducing supply. Imagine our backpack market initially balancing at \$60 and 90 bags. A material-cost increase could put upward pressure on the equilibrium price while reducing the equilibrium quantity. An increase in demand could also push the price upward, but it would generally increase the equilibrium quantity if supply stayed unchanged. Both situations can produce higher prices, yet they tell different stories about what is happening.

That difference matters when interpreting business news. Suppose the price of an item rises while fewer units are sold. It would be premature to conclude that customers suddenly love it more. A production problem might be reducing availability. Equally, a falling price does not automatically indicate a failing business or an unwanted product. A better manufacturing process could allow more units to reach customers at lower prices. Real markets can experience several changes at once, which makes interpretation more demanding. Imagine improved production occurring just as a product attracts a much larger audience. The resulting price depends on the relative strength of those changes. Price gives us evidence, but it rarely provides a complete explanation by itself. Quantities sold, costs, customer behavior, and delivery conditions help us understand the movement.

We also need to know how strongly people respond to a price change. *Price elasticity of demand* measures the percentage change in quantity demanded relative to the percentage change in price, with other influences held steady. Demand is called *elastic* when the quantity response is proportionally larger than the price change and *inelastic* when it is proportionally smaller. These words describe responsiveness; they do not mean that a product physically stretches. A narrowly defined brand may face strong responses when customers have many close alternatives. A purchase that is difficult to replace or postpone may produce a smaller immediate response. Responsiveness can also change as people have more time to adjust. [OpenStax's introduction to price elasticity](#) explains why the size of the response matters as much as its direction.

An independent screen-printing business offers a useful numerical example. Suppose it sells 100 shirts at \$25 each, producing \$2,500 in sales revenue. It raises the price to \$30 and sells 90 shirts, producing \$2,700. Fewer sales have accompanied greater revenue. Now imagine a different customer response: at \$30, it sells only 70 shirts, producing \$2,100. The same price increase would then reduce revenue. These are hypothetical outcomes, and a real business would need to investigate whether price caused the change rather than a holiday, a new competitor, or another influence. Profit requires a further calculation because production and operating expenses still have to be deducted. The lesson is that “charge more” and “sell more” are incomplete strategies. A business needs to understand how its customers respond and what each level of sales costs to deliver.

Producers differ in their ability to respond too. *Price elasticity of supply* measures how strongly quantity supplied changes in response to a price change. Consider tickets for a performance at a theater with five hundred seats. Higher ticket prices cannot create another hundred seats for tonight's show. Over a longer period, however, the organizer might schedule another performance or arrange a larger venue. The response depends on time, available facilities, and the ability to organize additional work. Compare that with a print shop that has unused equipment and staff available for extra hours; it may be able to increase output relatively quickly. A surge in interest can therefore produce waiting lists in one industry and a rapid increase in production in another. Recognizing those limits helps customers understand delays and helps owners make promises they can fulfill.

It is equally important to understand what an equilibrium price does not establish. Matching quantity demanded with quantity supplied does not prove that everyone who needs the product can afford it. A market can have no shortage at its current price while some people remain unable to participate. Nor does a high price measure moral worth, artistic merit, or the importance of a person's work. Prices reflect particular conditions of purchasing power, availability, competition, and production. Our simplified backpack example also assumes comparable products and a competitive setting. Distinctive brands, long-term contracts, and sellers with substantial control over their markets require additional analysis. The basic model remains useful because it identifies relationships to investigate, provided we keep its assumptions in view.

For an entrepreneur, these ideas turn vague impressions into more useful observations. An online audience may be enthusiastic, but completed orders reveal something different from compliments. A sellout may justify investigating another production run, while repeated unsold stock may prompt a review of price, design, timing, or the customers being reached. Preorders, carefully chosen production quantities, and conversations with buyers can provide information before a business makes a large commitment. Customers gain a clearer view as well: a higher price might reflect stronger demand, reduced supply, or several forces together. Understanding the relationship allows us to appreciate the work behind a successful brand while evaluating the actual terms of a purchase. We can recognize an attractive design, examine its price, consider the alternatives, and understand why obtaining it now may differ from ordering it for delivery later.