

Question #65467, Economics / Economics of Enterprise

Analyse the effect of decrease in supply of cement on the price of cement blocks. Illustrate your answer with a diagram and explanation

Answer

First, we should understand that the supply of cement is the function of the price of cement. Secondly, the price of cement blocks in its turn is the function of the cement price, as the cement is the main ingredient, which is being used in cement blocks, so it means that there is a strong relation between them.

The chain of the changes can be described by the following order.

$C_0^s \rightarrow \text{decrease of cement supply} \rightarrow C_N^s \rightarrow$

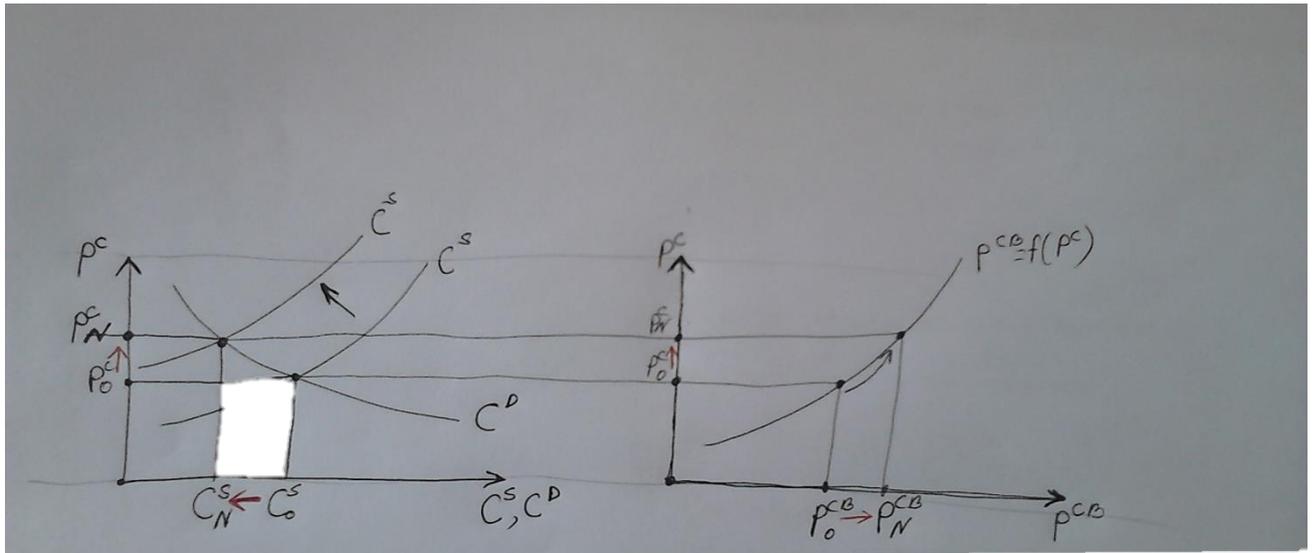
$P_0^c \rightarrow \text{increase of the cement market price (price of cement following the cut of cement supply)} \rightarrow$

$P_N^c \rightarrow P_0^{cb} \rightarrow \text{increase of the price of cement blocks} \rightarrow P_N^{cb}.$

Result: $C^s \downarrow \Rightarrow P^{cb} \uparrow$ (the cut of cement supply will probably cause the increase of the cement blocks)

This process can be represented with help of the following picture.

Picture 1



where

C^S, C^D –are supply (with S) and demand of cement

C_N^S –is the new level of cement supply

C_0^S –is the equilibrium or existed (amount before changes) level of cement supply

P_0^c –is the equilibrium or previous(price before changes) price of cement

P_N^c –is the new price of cement

P_0^{cb} –is the equilibrium or existed (price before changes) price of cement blocks

P_N^{cb} –is the new price of cement blocks.