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THE ROLE OF SUPPLY AND DEMAND THEORY IN FORMING MARKET EQUILIBRIUM

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Annotation: This article analyzes the importance of the theory of supply and demand in the formation of market equilibrium. The interaction of the laws of supply and demand, the formation of equilibrium price and quantity, the concepts of short- and long-term equilibrium and elasticity are covered based on Shodmanov's textbook "Theory of Economics". Also, using modern economic literature and Internet resources, it is shown how the functioning of the market mechanism, real examples and the impact of state regulatory policy on market equilibrium are shown. The results of the research are of practical importance in ensuring economic stability and understanding market processes.
Keywords: demand, supply, market equilibrium, equilibrium price, elasticity, market mechanism, economic stability.

In a market economy, the theories of supply and demand are one of the main driving forces of economic processes. Demand is the need of consumers for goods and services that they are able to purchase at a certain price, and supply is the amount of goods and services that producers can supply to the market at that price. These two forces interact to form market equilibrium and the equilibrium price (Shodmonov, 2005).
The interaction of supply and demand drives the market mechanism. If the price decreases, demand increases, but supply decreases; if the price increases, on the contrary, demand decreases and supply increases. As a result of these processes, market equilibrium is formed, and the price is determined by market forces.
Demand theory: The basic principle of demand theory is that when the price increases, demand decreases, and when the price decreases, demand increases. This inverse relationship is reflected in the downward sloping demand curve. The main factors affecting the volume of demand are:
1. Number of consumers and income level
2. Prices of substitutes and complements
3. Quality and fashion of the product
4. Consumer expectations about future prices
For example, if the price of sugar and butter increases in Uzbekistan, consumers will buy less of them or look for cheaper alternatives. This clearly demonstrates the elasticity of demand. The demand for luxury goods is elastic, while for basic necessities it is inelastic. Supply Theory: Supply is the amount of goods that producers will supply to the market under certain price conditions. According to the law of supply, when the price increases, supply increases, and when the price decreases, it decreases. The following factors affect the supply:
1. Prices of raw materials and resources
2. Number of producers and production capacities

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3. Technological innovations
4. Taxes, subsidies and government policies

For example, in agriculture, if the weather is bad, supply decreases, and as a result, prices increase. Conversely, if the harvest is abundant, supply increases and prices decrease. Market equilibrium and its types: At the intersection of the demand and supply curves, an equilibrium price (Pe) and an equilibrium quantity (Qe) are formed. If the price is below equilibrium, demand is in excess, and a shortage occurs. If the price is above equilibrium, supply is in excess, and a surplus occurs. Shodmonov (2005) divides market equilibrium into three types:

1. Instantaneous equilibrium - supply cannot adjust immediately, there is a short-term imbalance.
2. Short-term equilibrium - equilibrium is restored by using existing capacities.
3. Long-term equilibrium - production is expanded, new capacities are put into operation.

For example, seasonal vegetable prices in the Uzbek market change in connection with short-term equilibrium: in the summer the price of tomatoes and cucumbers decreases, and in the winter they increase sharply.

Elasticity and its importanceElasticity is the degree of sensitivity of demand or supply to price changes. If demand is elastic (Ek > 1), then if the price decreases slightly, demand increases sharply. For example, household appliances stocks. If demand is inelastic (Ek < 1), a change in price has little effect on demand. For example, bread, medicine. An increase in fuel prices in Uzbekistan will not sharply reduce demand in the short term, since transport and production are directly dependent on it.

Conclusion: This article discusses the mechanism of market equilibrium formation based on the theoretical concepts in Shodmanov's book "Economic Theory" and modern Internet sources. The laws of supply and demand are the basis of the market mechanism and regulate price and quantity.

My personal conclusion is this:

Proper formation of market equilibrium ensures economic stability.

The state must take into account the elasticity of supply and demand when conducting price policy.

Seasonality, external market factors and technological changes have a strong impact on equilibrium.

List of used literature and sites:

Scientific literature:

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