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“THE DEMAND-SUPPLY MODEL”: MECHANISM, ADJUSTABILITY, COSTS, AND REGULATION

МОДЕЛЬ «ПОПИТ-ПРОПОЗИЦІЯ»: МЕХАНІЗМ, ГНУЧКІСТЬ, ВИТРАТИ, РЕГУЛЮВАННЯ

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The article explores the essence of key economic concepts – demand, supply, the interaction mechanism between demand and supply, and market equilibrium – with the aim of adapting to market dynamics. It emphasizes that manufacturing enterprises must maintain current and forecasted assessments of demand for their products to avoid errors in production planning. This is also crucial when coordinating assortment plans, both in terms of timing and quantitative indicators related to demand volumes and trends. Two opposing viewpoints are examined: proponents of complete market freedom, who oppose government intervention in pricing, considering it a distortion of market mechanisms, and those who advocate for demand regulation through monetary policy, credit availability, employment levels, and supply-side adjustments via changes in lending and investment policies.

Keywords: demand, supply, price, model, equilibrium, market, competition.

У статті проведено опанування сутності понять – «попит», «пропозиція», «механізм взаємодії попиту і пропозиції», «ринкова рівновага» з метою пристосування до динаміки ринку. Зроблено наголос на те, що підприємства-виробники обов’язково повинні мати поточну та прогнозну оцінку попиту на продукцію, що випускається з метою уникнення помилок під час планування виробничих програм. Це важливо також на етапі узгодження асортиментного плану як за строками, так і в кількісному вираженні щодо обсягів та динаміки попиту. Розглянуто дві думки: прихильників повної свободи ринку, які виступають проти втручання держави в процес ціноутворення, вважаючи це порушенням ринкового механізму. Та інших – що вважають за потрібне регулювати попит через управління грошовою масою, кредитами, рівнем зайнятості населення та регулювати позицію через запровадження змін у позиковій та інвестиційній політиці. Метою статті було розробити модель

«попит-пропозиція» з урахуванням сучасних змін макроекономічного середовища, механізмів їх взаємодії та вимог теорій підприємництва для того, щоб пристосуватись до динаміки ринку. У реальному світі не існує кривих попиту, які універсальні та одразу задані. Можливо припустити, що для деяких цілей більш корисним може виявитись крива постійного реального доходу. Для більшості ж цілей, які переслідує виробник, традиційна інтерпретація, дає більш приємний інструмент для розуміння зворотно- пропорціонального відношення між цінами та обсягами, що визначаються законом попиту. Проведені узагальнення зведено до наступних аспектів: в ринковій економіці існує механізм, який забезпечує узгодження інтересів покупців та продавців; ціни формуються в результаті взаємодії попиту та пропозиції, вони гнучкі; продукція одного призначення, яка виготовлена різними виробниками, має різні питомі витрати; ринкове ціноутворення запускає і підтримує також механізм міжгалузевої конкуренції шляхом перетікання капіталу в галузі з високим платоспроможним попитом; взаємодія попиту та пропозиції дозволяє здійснювати важливу функцію ринку – санування. Важливим елементом ринкової системи є економічна свобода, коли є можливість індивідів реалізувати власні інтереси шляхом активної участі у виробництві, споживанні, розподілі благ.

Ключові слова: попит, пропозиція, ціна, модель, рівновага, ринок, конкуренція.

Problem statement. In the real world, there are no demand curves that are universal and predetermined. It may be assumed that, for certain purposes, a constant real income curve might prove to be more useful. However, for most of the objectives pursued by producers, the traditional interpretation offers a more convenient tool for understanding the inverse relationship between prices and quantities, as defined by the law of demand. The concept of the demand curve has only limited practical significance. Like the supply curve, the demand curve is merely an auxiliary instrument for conceptualizing a new reality. It serves only as a tool for identifying the various forces that determine price.

Review of recent research and publications. In the course of the study, the authors relied on the scientific works of the following scholars: Blaug M., Armstrong G. and Kotler P. [11], Harvey J. [12], Hyman D. [8], Dolan E. and Lindsey D. [2], Pindyck R. and Rubinfeld D. [6], Waarst I. and Reventlow P. [1], Schoell W. and Gviltinan J. [13], Filippova S. and Balan O., Sharko M. [9], Yiastremskyy O. [10], among others. However, despite the considerable number of studies in this field, some issues remain unresolved. Over time, the growing popularity of equilibrium theory has hindered the development of an entrepreneurship theory. Static equilibrium analysis increasingly dominated economic research throughout the 20th century. Even during the 1930s, when Keynesian macroeconomics was gaining ground, Léon Walras's static equilibrium analysis continued to be refined and reached its peak in the 1960s. Despite efforts to introduce dynamics into microeconomic analysis, significant areas of modern economic science remain within the conceptual boundaries of general static equilibrium. It is therefore not surprising that a typical contemporary textbook on economic theory is filled with analyses of consumer behavior, firm decision-making aimed at profit maximization (based on short-run equilibrium), wage theory, interest rate theory, and theories of international trade, while offering very little coverage of technological innovations, the causes of national wealth and poverty, or entrepreneurship theory.

Objective of the study. The aim of this article is to develop a "demand–supply" model that takes into account current changes in the macroeconomic environment, the mechanisms of their interaction, and the requirements of entrepreneurship theories, with the purpose of adapting to market dynamics.

Presentation of the main research findings. In a market economy, the focus of economics and management is not primarily on the production sector but on the consumption sector, i.e., demand. It is assumed that in a developed market economy, the means of production will be available – the key is to ensure demand and income that supports purchasing power. A "supply shock," which occasionally occurs, is rather an exception associated with the transition to market-based economic practices. Therefore, the cornerstone of economic success for a country that has adopted market principles is the presence of a sufficiently capacious market, whether domestic or external. For enterprises, the criterion for success is the demand for their products or services.

This context clarifies the importance of marketing for enterprises, understood in the broadest sense – researching, forecasting, and shaping demand for their products, especially those facing demand constraints. Skilled marketing ensures sales, guides enterprises toward justified production volumes that find buyers, and helps avoid excessive capital investments, maximizes their returns, prevents overly large and expensive loans, and minimizes the risk of losses. On the other hand, it aims to

"extract everything" from the product and its existing demand, maximizing sales volumes and profits.

Unfortunately, a narrow, everyday understanding of marketing has become widespread – limited only to shaping demand for a product: how to present it, advertise it, and attract buyers. The methodological foundation of the core part of marketing – marketing research and demand forecasting – focuses on deriving the demand curve for a product. This lays the groundwork for organizing sociological research, consumer surveys, and analytical processing of such results. These efforts should target: market segments with consumers grouped by income level; deriving indifference curves between spending income on a specific product versus all others; reflecting these curves for different utility levels; and adequately interpreting the gradation of these utility levels relative to consumer types (e.g., for industrial goods, utility may be interpreted as achievable profitability for the enterprise). The rest involves working with budget constraint lines. Varying these based on freely set prices in the model and deriving the optimal consumption trajectory are technical operations with the results of sociological research.

The question arises: how do societal actors "compel" one another to produce the necessary goods in the required quantity and quality? The motivating factor for decision-making is *gaining benefit*, manifested through the *price system*. Whether a product is profitable or unprofitable for an enterprise, as well as the necessity of its production, is determined by its market price. Market prices are established based on the interaction of *demand* and *supply*, independent of individual production and sales costs [5, p. 262]. This necessitates mastering concepts such as "demand," "supply," "the mechanism of demand and supply interaction," "market equilibrium," and others to adapt to market dynamics and, ideally, initiate changes beneficial to the enterprise.

1. *Demand: Key Terms*

Economists use the term "demand" to denote the desire and ability of people to purchase goods (demand – the quantity of goods or services that an individual or group wishes to buy at existing prices). Aggregate demand backed by actual payments is called effective demand [7, p. 409]. The term "supply" denotes the desire and ability of sellers to provide goods for sale in the market.

This is a very broad, qualitative interpretation of these concepts. Typically, consumers, producers, other market actors, and researchers are interested in the specific state of demand and supply at a given moment in a specific market, the factors determining them, and what happens when micro- and macro-conditions change. Quantitative measures are used for this purpose.

The quantity demanded of a specific good is the amount of that good that an individual, enterprise, or the population as a whole is willing to purchase over a defined period (day, month, year) under certain conditions, including: prices of this and other goods, consumer tastes and preferences, their income, savings, inflationary and other expectations, and many other factors [6, pp. 35–37].

Consider the situation in the market for a particular good. It is easy to notice a certain relationship between the price of the good and its quantity. Economists of the last century attached such importance to this relationship that they elevated it to the status of a law. Marshall A. noted the difficulties of various interpretations, calling it the *law of demand* (the widely accepted formulation that, all else being equal, more of a good will be bought at a lower price and less at a higher price). Strictly speaking, this law captures a general expectation rather than being a law per se, as demand can increase with rising prices, and one cannot always be certain that "all else remains equal" [7, p. 168]. It should be noted that so-called laws in economic theory are not laws in the general scientific sense. They are typically empirical observations that manifest clearly and consistently.

The graphical representation of the law of demand is the individual demand curve (Fig. 1). The curve has a smooth downward slope, indicating consumers' willingness to buy more goods at lower prices [2, p. 32]. Strictly speaking, price, as the argument of the function, should be plotted on the abscissa axis, and the quantity demanded on the ordinate axis. The reverse arrangement is an economic convention dating back to Marshall A.

In the economic literature of English-speaking countries and specialized publications in Ukraine, the following notations are accepted: the demand line – *DD*, the price of the good – *P*, the quantity demanded – *Q* [12].

A distinction is made between *individual* and *market* demand. Market demand is the aggregate of all individual demands of consumers operating in a specific market [6, pp. 100–102]. The transition from individual to market demand is achieved by summing the quantities demanded by all consumers at each price level [6, pp. 113 – 115].

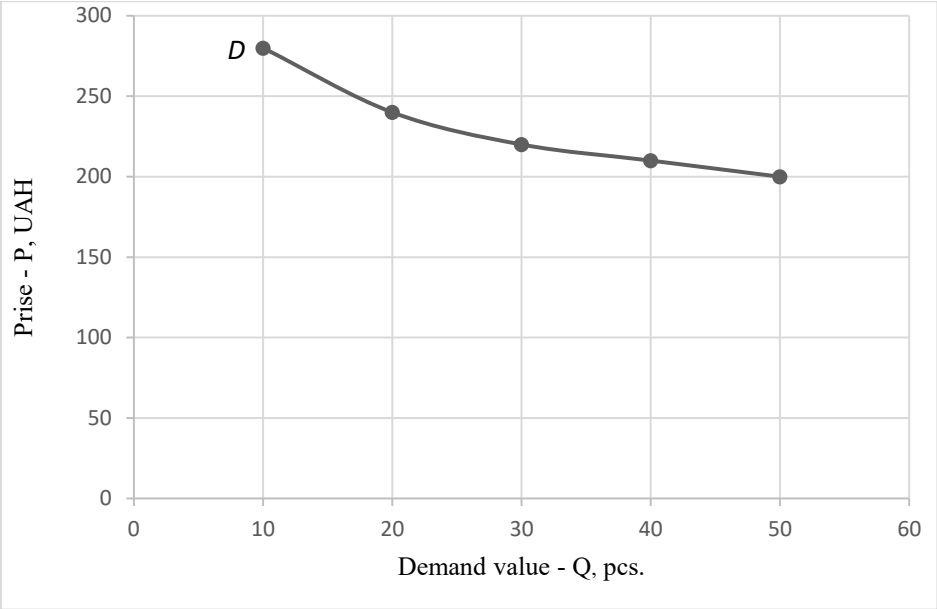

Fig. 1. Individual Demand Curve

Source: Own elaboration

For example, suppose we need to determine the market demand of three wholesale buyers for premium wheat flour from the firm "Kyiv Mill," packaged in 10-kilogram bags. Clearly, a high price level can satisfy procurement needs only if there is a specific group of buyers for whom the price of this product is not a decisive factor. A price reduction by the producer to a lower threshold means that the demand from these buyers is exhausted and begins to grow due to buyers who previously could not purchase the product due to lack of funds or storage space. Thus, the seller can choose between two extremes: lowering the price or finding buyers willing to purchase the product at a high price. However, if producers are interested in the total demand of all buyers at each price level, they must sum the quantities demanded by buyers at each price (the last column in Table 1).

Thus, at price P (Fig. 2), buyers declared a demand quantity of Q units. When the price rose to P_1, the quantity demanded decreased to Q_1, and when the price fell to P_2, the quantity demanded increased to Q_2. In other words, price changes lead to movements along the demand curve (from point *A* to point *B* or *C*) or transitions between rows in the table if the relationship between price and quantity demanded is presented in tabular form (Table 1).

Analyzing changes in the quantity demanded in response to price changes is crucial for forecasting buyer reactions to price fluctuations (all else being equal), i.e., it involves predictive analysis [4, p. 275]. It is always desirable to know the consequences of price changes for a particular good. However, it should be noted that the general inverse relationship may sometimes be violated. Such paradoxical cases are possible for essential goods that occupy a large share in

Table 1

Demand of Wholesale Buyers for Flour

Price (P), UAH	Individual Demand Quantities, kg			Market Demand, Q
	Buyer 1, Q_1	Buyer 2, Q_2	Buyer 3, Q_3	
280	10	14	8	32
260	20	20	12	47
240	30	30	20	80
220	50	40	30	124
200	90	68	50	208

Source: Own elaboration

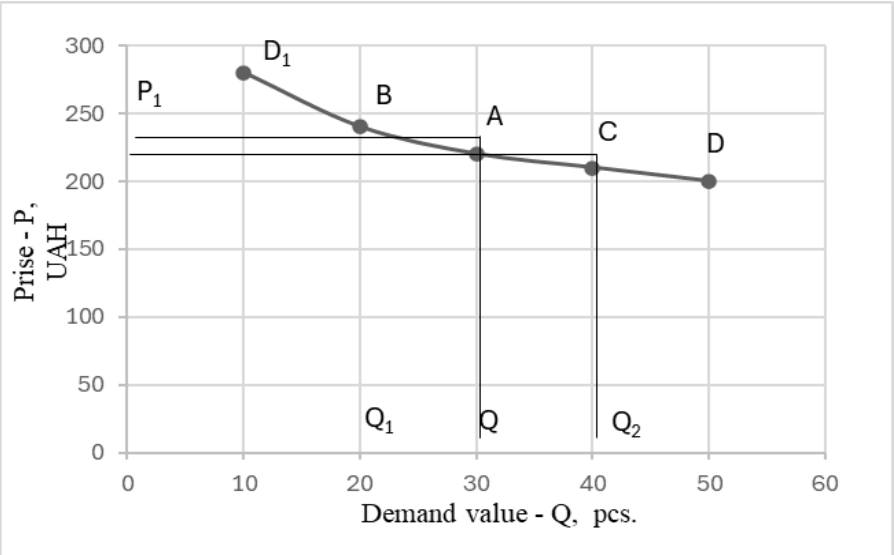

Fig. 2. Change in the Quantity Demanded for Flour

Source: Own elaboration

the budgets of low-income families, especially if other goods are displaced from the budget due to high prices. This effect is known as the "Giffen good" – a good for which demand tends to decrease as its price falls, contradicting the law of demand. It is named after Sir Robert Giffen (1837–1910), who observed that the poor bought more bread as its price rose. This situation arises when the absolute value of the income effect from a price increase is greater than the negative value of the substitution effect, and the income elasticity of demand for inferior goods is negative [7, p. 35].

Violations of the law of demand may also occur for prestige goods in certain cases where purchasing such goods is seen as a reflection of high social status, and demand may increase as prices rise.

For targeted regulation of consumer demand, a manufacturing enterprise must also know and account for the influence of non-price factors. These typically include:

1. The number of buyers in the market.
2. Buyer incomes.
3. Accumulated wealth.
4. Consumer tastes and preferences.
5. Prices of related goods.
6. The level of advertising and sales promotion for the relevant good, the availability of substitutes or complementary goods.
7. Expectations.
8. Consumption traditions, etc.

Let us examine the impact of some of the most important factors. It is advisable to use a method where, to identify the nature of changes in any variable *X* dependent on several factors, we first fix the values of all variables except one and study the relationship between *X* and that variable. Then, we vary the next factor, and so on. This method means we examine the dependence of *X* on each factor, holding others constant. Studying all variables together allows us to observe changes in *X* under the influence of all factors.

Tastes and Consumer Preferences. Any change in tastes and preferences may lead to an increase or decrease in demand for a good. For example, the firm "Arber" sells men's suits through a retail network. Through oral and written consumer surveys and trend analyses of sales staff, the relationship between price and quantity demanded was established, leading to the construction of the demand curve *DD* (Fig. 3). After an advertising campaign, the product becomes fashionable, and demand increases at every price level, shifting the demand curve to the right (from *DD* to D_1D_1). For instance, at a price of UAH 5,000 per suit, demand was 10 units per month, but after intensified marketing efforts, it rose to 15. If the product loses its appeal, consumers will prefer other goods, and the demand curve will shift left (from *DD* to D_2D_2).

Note that changes in tastes may be long-term (e.g., transitioning to new generations of household appliances) or short-term (e.g., fashion for platform shoes).

Prices of Related Goods. When analyzing this factor, it is important to note that goods

can be divided into three groups based on their interrelationships:

– Substitutes (competing goods in consumption).
– Complements (complementary goods).
– Independent goods [1, p. 129].

Substitutes are goods that can be compared in terms of functional purpose, usage, quality, technical characteristics, price, and other parameters. In other words, consumers can substitute one good for another in consumption. In this sense, they compete with each other. For example, if one manufacturer produces wall clocks and another produces alarm clocks, and the price of one decreases, demand for that product will rise, while demand for the other will fall. Thus, substitutes are goods for which demand moves in opposite directions when prices change [1, pp. 94–95].

Complementary Goods are goods that complement each other in consumption. Demand for such goods depends on changes in demand for the other good. If demand for one rises, demand for the other also rises. Examples include cars and gasoline, cameras and film, etc. If good *Y* complements good *X*, meaning they are used together, a decrease in the price of *X* will lead to an increase in demand for *Y* and a rightward shift in the demand curve. Conversely, a price increase for *X* will reduce demand for *Y* and shift the demand curve left [1, p. 95].

Independent Goods are goods for which price changes do not affect the price of other goods. Table 2 summarizes the impact of some non-price factors on demand.

Thus, the action of non-price factors leads to changes in demand, graphically represented by shifts in the demand curve (Fig. 3).

The terms "change in quantity demanded" and "change in demand" can be easily explained mathematically. Suppose the demand curve equation is given as:

$$P = a - b \cdot Q, \quad (1)$$

where *P* is the price of the good, and *Q* is the quantity demanded per period.

If all factors except the price of the good remain unchanged, the parameters a and b also remain constant, and the equation defines a specific demand curve. A price change leads to movement along this curve (each price corresponds to a specific quantity demanded) – this movement is called a "change in quantity demanded." The influence of non-price factors alters the parameters *a* and *b*. A change in the quantitative value of a affects the position of the curve, while a change in b affects its slope. These changes define the equation of a new demand curve and are called a "change in demand" [6, pp. 105–107].

Thus, demand for a good results from the interaction of many factors. Beyond those already mentioned, we can name seasonality, the age-gender composition of buyers, market geography, seller activities related to other goods, the quality of substitutes, advertising effectiveness, labor market conditions, raw material and energy prices, exchange rates, and economic and political stability.

Manufacturing enterprises must have current and forecasted assessments of demand for their

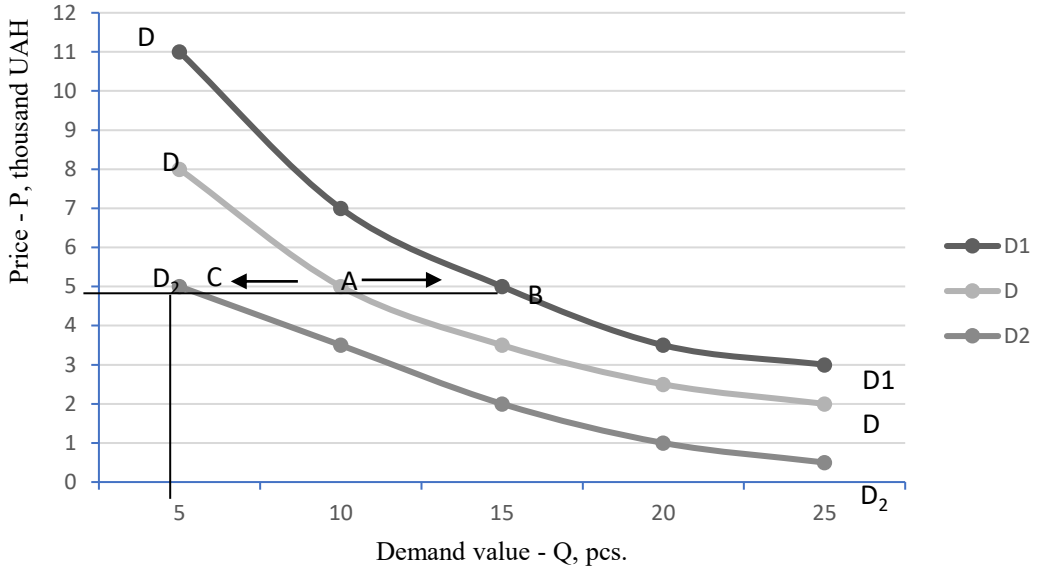

Fig. 3. Changes in Demand for Suits

Source: Own elaboration

Table 2

Impact of Non-Price Factors on Demand

№	Factor	Demand Change Trend (+ increase, – decrease) and Curve Shift Direction (→ right, ← left)
1	Increase in buyer incomes:	+, → –, ←
2	Decrease in buyer incomes:	–, ← +, →
3	Unfavorable consumer attitude toward the good	+, →
4	Increase in price of a substitute	–, ←
5	Decrease in price of a substitute	+, →
6	Expectations of price decreases	–, ←
7	Expectations of price increases	–, ←
8	Deposit indexation exceeding price index	+, →
9	Increase in the number of buyers	–, ←
10	Unfavorable consumer attitude toward the good	+, →

Source: Own elaboration

products to avoid errors in production planning and to align assortment plans with timing and quantitative indicators of demand volume and dynamics [8, Vol. 2, pp. 328–329].

2. *Supply: Key Terms*

The *quantity supplied* is the amount of a specific good that a seller or group of sellers is willing to sell in the market per unit of time under certain conditions. These conditions include the price level of the good, the cost of resources used in production, production technologies, seller expectations, the number of sellers in the market, natural and climatic conditions, and other factors. ("Bid price – an offer to pay made by an individual or organization to acquire or control assets, resources, goods, or services. A decision-maker maximizing utility equates their marginal willingness to pay to the opportunity cost of the funds required for payment" [7, p. 440]).

If all factors determining the quantity supplied, except the price of the good, remain unchanged, we can derive the general supply function with respect to price [8, Vol. 2, pp. 128–129]. The relationship between the quantity supplied and price is evident: the higher the price, the greater the quantity sellers are willing to supply (all else being equal). This is the essence of the *law of supply.*

Figure 4 shows the supply curve, labeled *S*. It has a positive slope, indicating producers' willingness to sell more goods at higher prices.

A distinction is made between individual and market supply. The latter is the aggregate of all individual supplies in the market. As with demand, we differentiate between a "change in quantity supplied" and a "change in supply." A change in quantity supplied occurs when the price of the good changes while other conditions remain constant (movement along the *S* line, as in Fig. 5).

If any non-price factor changes (e.g., weather conditions for agricultural goods), this shifts the entire supply line (e.g., from S to S_2 under worsening weather conditions), so that at the previous price P_1, the quantity supplied would only be Q_2. An increase in supply shifts the S_1 line to the right.

We expect that not only weather conditions affect changes in demand. Factors that change supply include:

1. Adoption of new technologies.
2. Changes in resource prices.
3. Government tax policies.
4. The number of sellers.
5. Changes in prices of components and substitute goods in production.
6. Expectations of changes in the economic situation at micro and macro levels, etc.

Other examples and causes of increases or decreases in supply can be identified (Table 3).

3. *Interaction of Demand and Supply: Market Equilibrium*

Let us examine the model of market regulation of the economy, also called the model of demand and supply interaction, or simply the "demand-supply model." This model has existed for over 200 years and, though somewhat simplified,

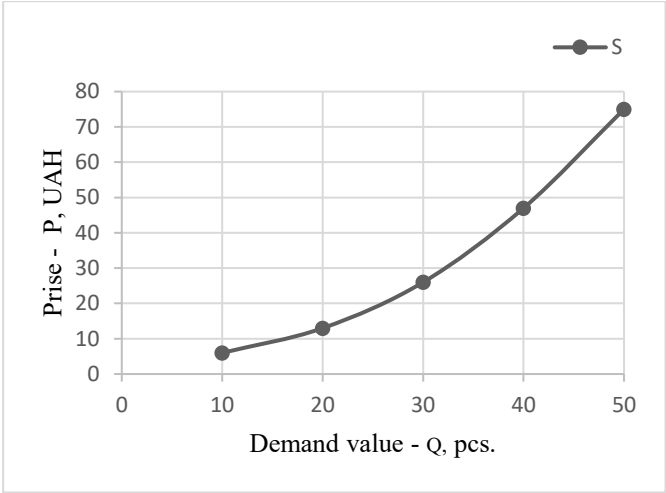

Fig. 4. Supply Curve

Source: Own elaboration

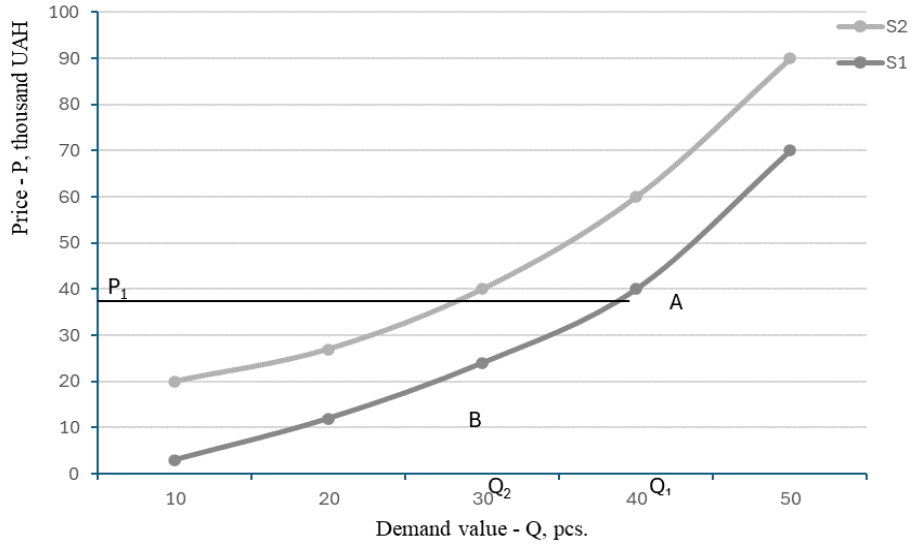

Fig. 5. Change in Quantity Demanded (from... to...) and Change in Supply (from S_1 to S_2)

Source: Own elaboration

remains widely used in economic theory. The model describes a multitude of buyers and sellers acting independently without market power – i.e., under perfect competition.

It is worth recalling: "General equilibrium – a situation where all markets in the economy are in equilibrium, meaning prices and quantities do not change. Traditionally, economists use two approaches to analyze economic systems. The simpler approach, associated with Marshall A. (1842–1924), involves partial equilibrium analysis, i.e., the equilibrium of part of the system, such as the orange market, assuming conditions in other parts of the economy remain unchanged. The second, more complex approach conceptually and mathematically, is general equilibrium analysis, where the economic system is considered as a whole, and prices and quantities of all goods and services are determined simultaneously. The creator of this approach is considered to be Walras L. (1834–1910)" [7, pp. 164–165].

Thus, in the market, there are many sellers and buyers, each planning their actions independently. When they meet to trade, it turns out that most cannot realize their plans [3, pp. 117–119]. The total quantity of goods consumers plan to buy may exceed the quantity producers are willing to sell at the existing price. In this case, either consumers or producers revise their plans. Alternatively, planned sales volumes may exceed planned consumption at set prices,

Table 3

Impact of Non-Price Factors on Supply

№	Factor	Supply Change Trend (+ increase, – decrease) and Curve Shift Direction (→ right, ← left)
1	Technological improvements	+, →
2	Increase in resource prices	+, ←
3	Decrease in resource prices	–, →
4	Increase in the number of sellers	+, →
5	Decrease in the number of sellers	–, ←
6	Increase in taxes	–, ←
7	Decrease in taxes	+, →
8	Increase in subsidies	+, →
9	Decrease in subsidies	–, ←
10	Changes in producer expectations	+, –, ←, →

Source: Own elaboration

forcing sellers to adjust. Sometimes, the plans of buyers and sellers coincide regarding both the quantity of purchases/sales and prices. In this case, *market equilibrium* is achieved.

Let us examine this situation using the example of the local apple market in mid-February 2025. Table 4 presents market supply and demand for apples in the wholesale hypermarket "Ideal" in Odesa.

The question arises: which of the five possible prices will be recognized as the equilibrium market price? The price of UAH 45 cannot be it, as sellers wish to sell 1200 kg of apples, while buyers are willing to purchase only 200 kg at this price (too expensive). This creates a surplus of 1000 kg. Can the price of UAH 45 persist in the market for long? No, as the surplus will force competitors to lower prices.

If we consider UAH 35 as a possible market price, a shortage (deficit) of 1500 kg or excessive demand for apples becomes evident. This price cannot persist either. Competition among buyers for the good will drive the price up to UAH 38 and beyond. Thus, only at UAH 40 per kg does the quantity sellers wish to supply equal the quantity consumers are willing and able to buy. At this price, there is neither surplus nor deficit. The table data are presented graphically in Fig. 6.

Market equilibrium is a situation where the plans of buyers and sellers fully coincide, i.e., at a given price, the quantity supplied equals the quantity demanded.

Market equilibrium is determined by the coordinates of point *E* – thethe intersection of the *DD* and *SS* lines, corresponding to price P_e and quantity Q_e.

The e*quilibrium price* (P_e) is the price that balances demand and supply due to competitive forces (in our example, UAH 40).

The *equilibrium quantity* (Q_e) is the quantity of the good sold at the equilibrium price (in the example, Q_e = 700 kg/week).

In equilibrium, the market is balanced, and neither sellers nor buyers have reasons to disrupt the equilibrium.

If the market price slightly exceeds the equilibrium price (e.g., P_1 = UAH 45), the quantity supplied (Q_1 = 1200 kg) exceeds the quantity

Table 4

Market Supply and Demand for Apples

Price (*P*), UAH	Quantity Demanded (kg/week)	Quantity Supplied (kg/week)	Surplus (+), Deficit (–)
45	200	1200	+1000
42	400	1000	+600
40	700	700	0
38	1100	400	-700
35	1600	100	-1500

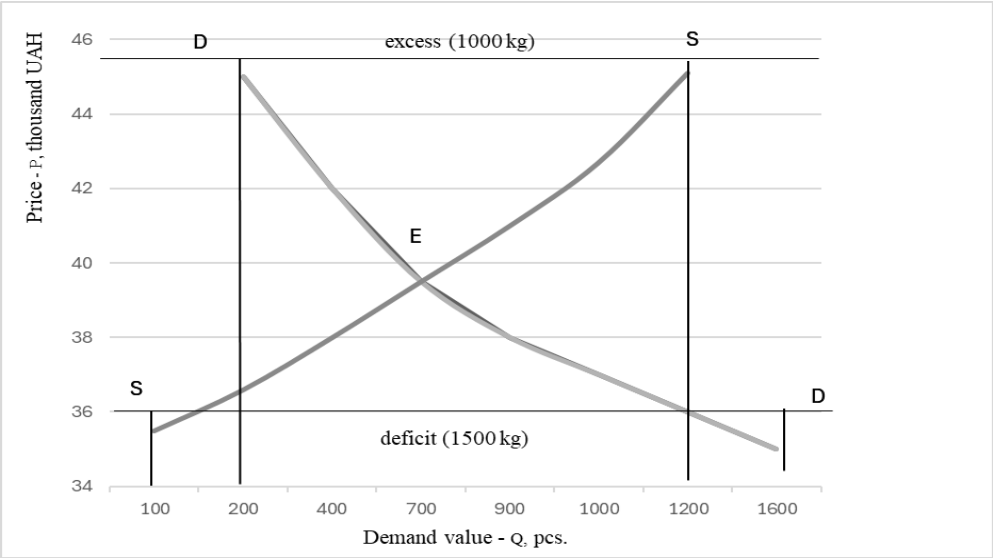

Fig. 6. Market Equilibrium of Apple Demand and Supply

Source: Own elaboration

demanded (Q_2 = 200 kg). The surplus supply ($Q_1 – Q_2$ = 1000 kg) will trigger competition among sellers, who will be forced to lower prices to sell the surplus, exerting downward pressure on the current price.

Any price below equilibrium (e.g., P_2 = UAH 35) causes a shortage (deficit), as the quantity demanded (Q_3 = 1600 kg) exceeds the quantity supplied (Q_4 = 100 kg). Competition among buyers will drive the price up to the equilibrium level.

The ability of competitive forces of demand and supply to set a price that reconciles purchase and sale decisions is called the *balancing function of price* [6, p. 418].

Market equilibrium is typically short-lived, akin to a pendulum oscillating around equilibrium. Equilibrium is constantly disrupted by changes in demand or supply, or both, and the market repeatedly balances new price and quantity levels [2, p. 44]. Microeconomic research analyzes various scenarios of changes in market equilibrium, such as mutual, varying-scale, or isolated shifts in demand and supply. For example, how will equilibrium price and quantity change if supply increases significantly while demand rises slightly, or when a new product is introduced to the market? Situations are analyzed where a new product enters the market, and sellers are ready to sell it, but consumers are not yet interested. In such cases, equilibrium is established under conditions of significantly reduced demand and ongoing supply (a typical example is markets in a crisis economy).

The market spontaneously and automatically facilitates the formation of equilibrium prices. However, this mechanism can be disrupted by government intervention (through setting price "ceilings" or "floors") [2, pp. 51–56]. In everyday life, a "floor" is below, and a "ceiling" is above, but in economics, it is the opposite: a price ceiling limits upward movement (price increases), while a price floor limits downward movement (price decreases) [8, Vol. 2, p. 30]. Price fixing temporarily disables the market coordination mechanism. Graphically, a price floor will be above the equilibrium price, and a price ceiling below it.

Many economists – advocates of complete market freedom – oppose government intervention in price formation, considering it a distortion of market mechanisms [8, Vol. 2, pp. 115, 328]. They argue that price formation automatically eliminates surpluses and shortages, reallocates resources to high-demand industries, displaces inefficient producers, and enhances overall economic efficiency.

Other economists, without diminishing the role of the market, believe it is necessary to regulate demand through monetary policy, credit availability, employment levels, and/or regulate supply through changes in tax and investment policies [2, pp. 96–100].

In any case, enterprises developing competitive strategies consider price levels formed by the interaction of demand and supply. Marketing and managerial decisions are often based on comparing market-average prices with internal cost estimates [10].

Marketing and strategic management theories outline various pricing strategies: *sliding*, *segmented*, *penetration*, *flexible*, etc. For example, *sliding pricing* involves gradual price reductions to attract more buyers. *Segmented pricing* sets different prices for the same product in local markets. *Penetration pricing* sets prices below market levels to capture market share. *Flexible pricing* adjusts prices based on dynamic market conditions, etc. [9, p. 108]. However, these strategies are temporary and often transition to equilibrium prices [11, 13].

Research into the "demand-supply" model leads to the following conclusions:

– A market economy has a mechanism that aligns the interests of buyers and sellers.

– Prices are formed through the interaction of demand and supply. They are flexible. Constant price changes enable the market to perform an informational function, providing all market participants with objective data about socially necessary quantities, quality, and product assortments.

– Goods of the same purpose produced by different manufacturers have different unit costs. If the equilibrium price significantly exceeds the costs of producers with below-average unit costs, it redistributes resources from worse to better producers, activating intra-industry competition. This competition stimulates cost reductions per unit, technological progress, quality improvements, and productivity growth.

– Market price formation initiates and sustains inter-industry competition by directing capital to sectors with high purchasing power. This realizes the market's regulatory function, influencing all economic spheres, primarily production. Rising prices signal expansion, while falling prices signal contraction. Thus, seemingly spontaneous enterprise actions form an optimal economic structure and stimulate growth in the most promising sectors. In all developed countries, the economy is guided not only by the "invisible hand" but also by the state, though the market's regulatory function persists.

– The interaction of demand and supply enables the market to perform its sanitizing function. Through competition, the market eliminates non-viable enterprises, enhancing the overall organizational and economic resilience of the economy.

The market system is based on economic freedom – the ability of individuals to realize their interests through active participation in production, consumption, and the distribution of goods. Consumer freedom lies in choosing the best combination of goods and services from the available assortment.

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