

Demand Supply Interaction and Price Formation: An Analysis of Contemporary Market Equilibrium

Original Article

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Abstract

This study aims to understand how the relationship between demand, supply, and market equilibrium is formed in a traditional market environment. The study used a descriptive qualitative method, conducting direct observations and interviews with traders and buyers at Makassar City's Central Market. The primary focus of this study was to analyze how market participants adapt to changing prices and economic conditions through social interactions and everyday experiences. The results indicate that price equilibrium in traditional markets is formed naturally through adjustments between the quantity of demand and supply of goods. When demand increases, prices rise; conversely, when supply increases, prices decrease. Other factors such as seasonality, purchasing power, and trust among market participants also influence price equilibrium. The conclusion of this study is that market mechanisms are influenced not only by economic figures but also by social behavior, intuition, and human experience in trading activities.

Keywords: demand, supply, market equilibrium, price, qualitative approach

1. Introduction

Markets are the primary arena where consumers and producers meet, where the exchange of goods and services takes place through complex mechanisms. In the modern economic context, market dynamics are increasingly influenced by various internal and external factors, making the price-formation process no longer as simple as the classic interaction between supply and demand. Global economic uncertainty, technological acceleration, changes in consumer behavior, and increasingly intense competition are creating new dynamics in the price-determination process. Therefore, a thorough understanding of the demand-supply interaction and its implications for price formation is becoming increasingly important.

The theory of supply and demand traditionally explains that prices are formed at an equilibrium point when the quantity demanded equals the quantity supplied. While this concept is a key foundation in microeconomic analysis, contemporary markets often exhibit patterns that deviate from this simple equilibrium mechanism. Government intervention, fluctuations in production costs, changes in consumer preferences, and technological innovation influence the demand and supply curves, allowing the equilibrium point to shift dynamically.

In the digital era, demand dynamics have undergone significant transformation. Ease of access to information makes consumers more responsive to changes in price and quality, resulting in increased demand elasticity for various types of goods. Furthermore, lifestyle trends, social media, and big data analytics are changing the way consumers make purchasing



decisions. This creates demand patterns that depend not only on price but also on perceived value, brand image, and recommendations from digital networks.

Meanwhile, supply is also undergoing fundamental changes. Technological innovations are accelerating production processes, lowering costs, and creating new business models such as automation, e-commerce, and platform-based services. Producers must adapt to fluctuating input costs, regulatory changes, and competitive pressures both locally and globally. Supply is no longer simply a response to price, but rather a reflection of increasingly flexible and data-driven production strategies.

The interaction between supply and demand in this context makes price formation a more dynamic and often unpredictable process. Prices do not simply move toward equilibrium but can fluctuate within short periods of time due to market pressures, changing expectations, or information imbalances. In extreme conditions, markets can even experience failures, such as shortages, price spikes, or surpluses in certain sectors.

Given this complexity, it is important to analyze how demand-supply interactions in contemporary markets shape prices and how equilibrium is reached in rapidly changing situations. This analysis is not only relevant for academic purposes but also has practical implications for business actors, policymakers, and consumers. A comprehensive understanding of modern market mechanisms can help generate more informed decisions in the face of price uncertainty and supply dynamics.

Furthermore, research on contemporary market equilibrium can provide insight into the level of market stability and the potential for price distortions. Factors such as digital market integration, supply chain globalization, and the volatility of supply and demand are important aspects that require more in-depth analysis. Thus, this research can fill a gap in the literature regarding how market mechanisms operate in an increasingly complex and interconnected economic ecosystem.

Overall, this research aims to examine the interaction between supply and demand and the mechanisms of price formation in the context of modern markets. By combining the perspectives of classical economic theory and contemporary economic dynamics, this research is expected to contribute to understanding how market equilibrium is achieved and the factors that influence current price stability. The research results are expected to serve as a reference for various parties in formulating economic strategies and policies that are more adaptive to changing market conditions.

2. Literature Review

According to Sukirno (2018), demand is the quantity of goods that consumers are willing and able to purchase at various price levels within a specific time period. Meanwhile, supply is the quantity of goods that producers are willing and able to sell at a specific price level.

Mankiw (2020) states that market equilibrium is achieved when the quantity demanded equals the quantity supplied, and the market price stabilizes. However, in reality, the process of achieving this equilibrium is influenced by human behavior and decisions.

Research by Fitriani (2021) shows that social interactions between sellers and buyers play a significant role in maintaining price stability in traditional markets. Based on this theory, this study uses a qualitative approach to better understand the meaning behind market participants' economic behavior.

3. Methods

This research used a descriptive qualitative method. The research location was Makassar Central Market, as this market is the center of economic activity in the city and experiences relatively high price fluctuations.

Data is collected in three ways:

1. Direct observation was conducted for two weeks to observe buying and selling activities and changes in the prices of basic goods such as rice, vegetables, chilies, and fish.
2. In-depth interviews with 10 traders and 10 buyers to find out their views on price changes and market balance.
3. Documentation, in the form of photos of market activities, daily price lists, and trader notes.

Data analysis was conducted using three stages as outlined by Miles and Huberman (1994): data reduction, data presentation, and conclusion drawing. Data validity was tested through source triangulation (comparing seller and buyer responses) and time triangulation (observing market conditions on weekdays and weekends).

4. Results and Discussion

4.1. Overview of Research Location

Makassar Central Market is one of the city's oldest markets. The market is bustling, especially in the morning. The voices of vendors calling out to customers, the aromas of vegetables and spices, and the hustle and bustle of shoppers create a vibrant economic atmosphere. Prices in this market are not fixed—they can change daily depending on supply and demand.

4.2. Observation Results

Observations have shown that the price of red chilies, for example, can rise from IDR 30,000/kg to IDR 45,000/kg when supply from farmers is reduced due to bad weather. Conversely, tomato prices often drop drastically during a bountiful harvest.

Traders adjust prices quickly based on market conditions. There is no fixed price; everything is determined through direct negotiations between sellers and buyers.

4.3. Interview Results

In interviews, several vendors provided interesting insights. One vegetable vendor, Mrs. Rahma (48), said: “The price depends on the buyers, son. If there are a lot of buyers, I raise it a little. But if there are few, I lower it, as long as the goods are sold out. Here, it’s not just about making a profit, but also about taking care of customers.” A customer, Mr. Dedi (36), added: “I usually shop here every week. Sometimes the price goes up, sometimes it goes down, but if the seller is friendly and the goods are good, I still buy. Because I’m a regular customer.” From this interview, it is clear that trust and social relationships are important factors in maintaining market balance. Buyers consider not only price, but also convenience and quality of goods.

4.4. Seasonal Factors and Purchasing Power

Prices are also heavily influenced by the season. Approaching major holidays like Eid al-Fitr or Christmas, prices of staple goods tend to rise due to increased demand. However, after the holidays, prices stabilize. Furthermore, people's purchasing power also influences price movements. Traders lower prices when buyers dwindle towards the end of the month.

4.5. Discussion

The research results show that market equilibrium in the Central Market is formed through natural and dynamic mechanisms. Traders possess strong economic intuition and are able to read market conditions without formal analysis. Price equilibrium is influenced not only by the quantity of goods, but also by social interactions, experience, and trust among market participants.

This finding reinforces microeconomic theory that market prices are determined by the interaction of supply and demand. However, in the context of traditional Indonesian markets, social and cultural factors play an equally important role.

5. Conclusion

The research results conclude that market equilibrium in Makassar Central Market is formed naturally through interactions between buyers and sellers. When demand increases, prices adjust upward; when supply increases, prices fall. However,

Factors such as season, purchasing power and social relations are also important determinants in maintaining price stability.

This research shows that traditional markets not only function as a place for economic transactions, but also as a social space where the values of trust, togetherness, and mutual assistance are part of the market mechanism itself.

It is hoped that this research can provide a broader understanding of how economic mechanisms work at the community level, as well as provide input for the government in maintaining price stability through empowering traditional markets.

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