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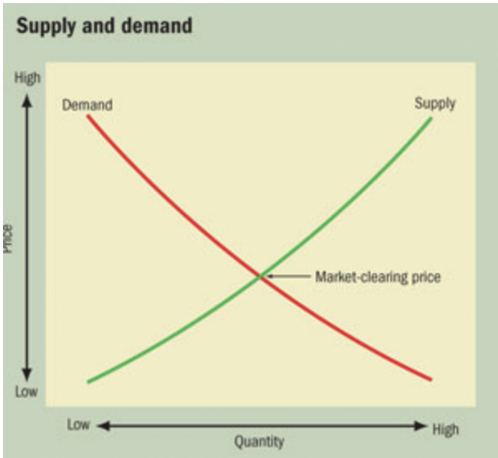
I have added this entry to this blog's glossary, it being a myth within neoclassical economics.

Supply and Demand Curves

The image of two intersecting curves — one sloping down for demand, one sloping up for supply — is perhaps the most famous in economics. It is presented as the key to understanding all markets. Yet this tidy diagram bears little resemblance to the messy, dynamic world we inhabit.



Assumption

The theory suggests that when prices rise, buyers want less of whatever is on offer, while sellers want more. The market, therefore, finds an equilibrium price at which the two meet. Everything, from wages to food prices, is supposedly explained by this simple balancing act. The diagram gives the illusion of universal truth and mathematical elegance.

Reality

In real life, demand does not always fall as price rises. People often buy expensive goods precisely because they are expensive. Luxury brands, property in fashionable postcodes, or speculative assets like Bitcoin are all of this type. Economists call these ***Veblen goods* or *Giffen goods*, but they are not exceptions; they are central features of modern economies built on status and scarcity.**

On the supply side, things are no simpler. Production cannot adjust instantly. A farmer cannot grow new crops overnight because demand rises; a factory cannot double capacity without investment.

In labour markets, supply is shaped by contracts, health, family responsibilities and the sheer need to survive. What is more, people cannot simply supply more labour when wages fall; they may instead drop out of work altogether.

Why It Matters

When policymakers treat these curves as literal descriptions of behaviour, they misdiagnose problems. Inflation, for example, is often blamed on too much demand when supply bottlenecks, corporate profiteering, or external shocks such as energy prices are really driving it.

Central banks raise interest rates to cool demand, punishing households instead of tackling the real sources of cost pressure.

The curves also hide power: employers and landlords can often dictate terms regardless of supposed equilibrium. These curves ignore the realities of political economy.

Understanding this means recognising that markets are not natural balancing systems but arenas of negotiation, regulation and struggle.

Summary

Supply and demand curves are teaching tools, not truths, and real markets rarely obey their geometry. This economic myth does not extend beyond the classroom, but its implications have, at a cost to us all.