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An Analysis of the Current Market for Sport Utility Vehicles

Currently the market for sport utility vehicles, commonly known as SUVs, is and has been on the decline. The demand for these vehicles has been decreasing since the mid-2000s. There are two main reasons as to why the popularity of these vehicles rapidly decreased, as discussed in the article *An S.U.V. Traffic Jam* by Nick Bunkley.

Over the past few years the demand curve for SUVs has shifted considerably to the left. The main reason for this shift in the demand curve of SUVs is most directly linked to the steep increase in gas prices, a complementary good for the “gas-guzzling” machines. SUVs require much more gas to a smaller distance than other smaller cars require, and with the upshot of gas prices, maintaining SUVs becomes a financial burden. Consumer preferences also changed after fuel efficiency and alternative energy sources became more popular. For example, the demand for hybrid cars, a substitute good for SUVs, has increased simultaneously with the leftward shift of the SUV market. This is roughly the supply-demand curve for SUVs:

The consumer surplus decreased because the value to buyers is less than the cost to buyers. The producer surplus also decreased because the amount received by the sellers is less than the cost to sellers. The price for these cars has been forced to decrease rapidly, but individuals and sellers are still losing incredible amounts of money by buying and making, respectively, these cars.

The market for SUVs would most likely be elastic for two reasons. One is reason is because close substitutes for SUVs, such as Hybrid cars are readily available and in much higher demand because of their fuel efficiency and eco-friendliness. Another reason is because SUVs are a luxury good and not a necessity.

After examining the market for SUVs, it is obvious that the massive cars are on the decline and are not a valuable investment for individuals. In the end, the car companies will pay the highest price for producing and not selling the once popular sport utility vehicles.