Market Equilibrium

–*Equ*

–The **equilibrium price** is the price at which the quantity demanded equals the quantity supplied.

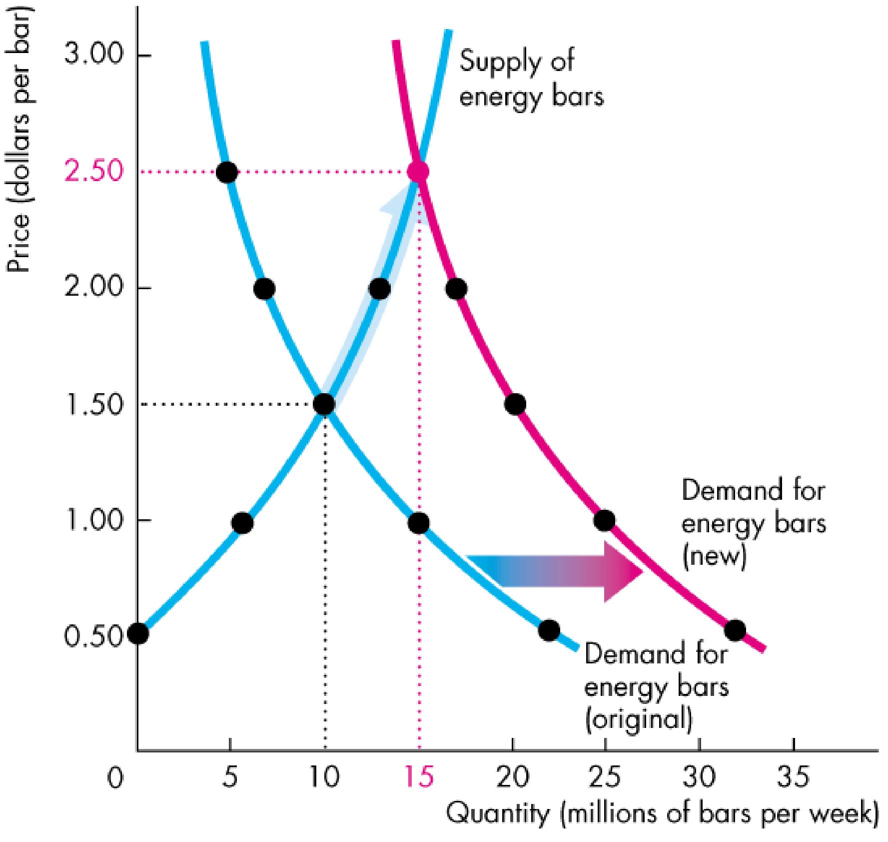
–The **equilibrium quantity** is the quantity bought and sold at the equilibrium price.

- Price regulates buying and selling plans.
- Price adjusts when plans don't match.

Market Equilibrium

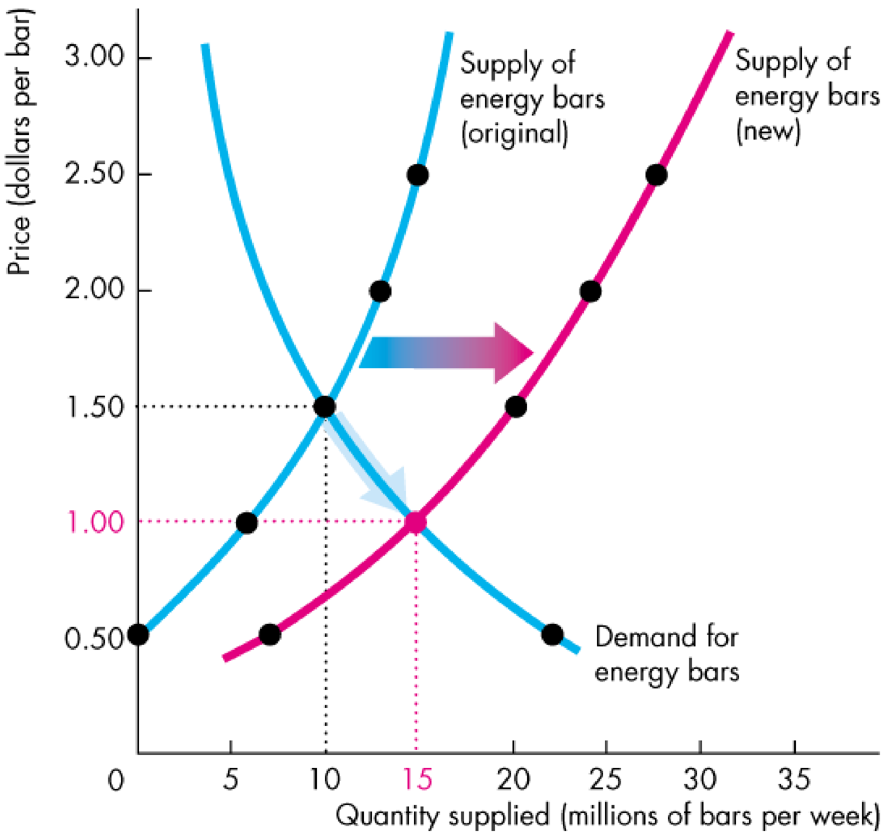
- An Increase in Demand
  - Figure 3.8 shows that when demand increases the demand curve shifts rightward.
  - At the original price, there is now a *shortage*.

The price rises, and the quantity supplied increases along the supply curve.



Predicting Changes in Price and Quantity

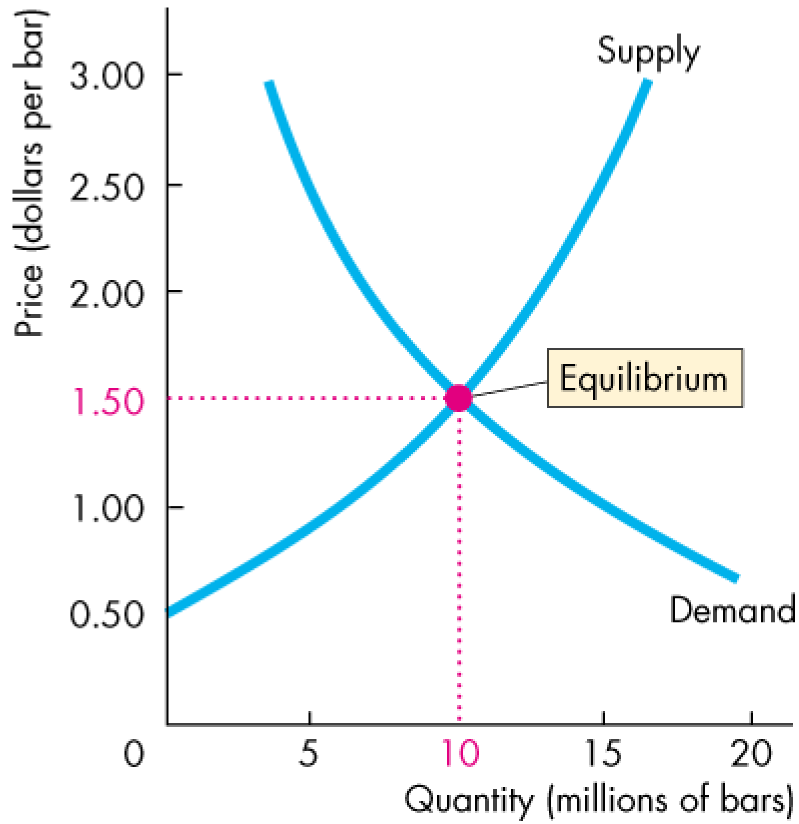
- An Increase in Supply
  - Figure 3.9 shows that when supply increases the supply curve shifts rightward.
  - At the original price, there is now a *surplus*.



The price falls, and the quantity demanded increases along the demand curve.

Predicting Changes in Price and Quantity

- All Possible Changes in Demand and Supply
  - –A change demand or supply or both demand and supply changes the equilibrium price and the equilibrium quantity.



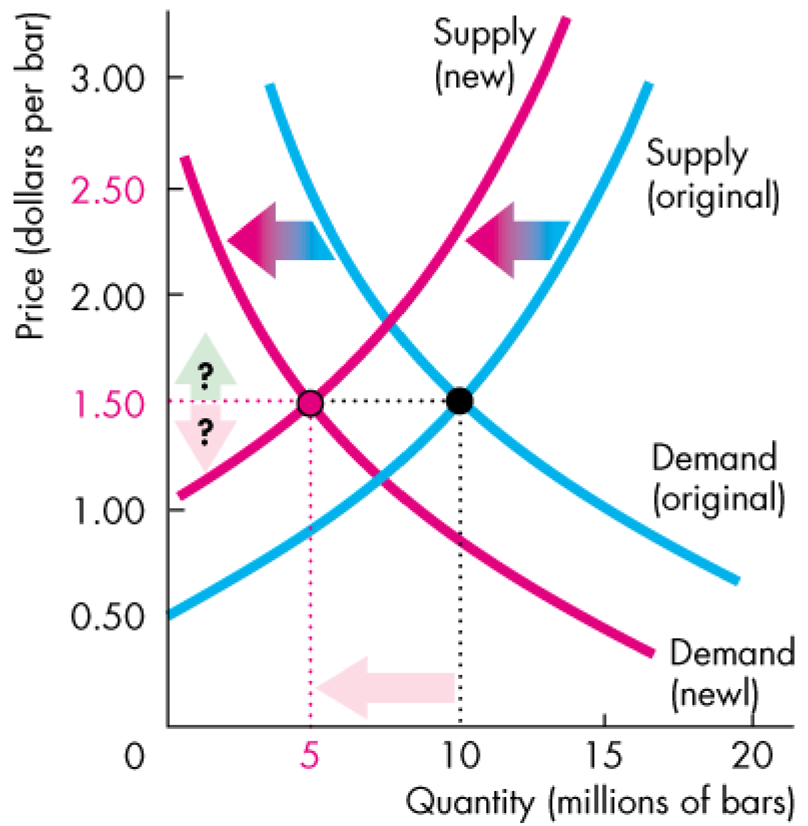
(a) No change in demand or supply

Predicting Changes in Price and Quantity

Decrease in Both Demand and Supply

A decrease in both demand and supply *decreases* the equilibrium quantity.

The change in equilibrium price is *uncertain* because the decrease in demand lowers the equilibrium price and the decrease in supply raises it.



(i) Decrease in both demand and supply