2 Price determination – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
Demand			
price			
quantity demanded			
demand curve			
substitute			
complement			
Supply			
supply curve			
subsidy			
equilibrium			
equilibrium price			
excess demand			
shortage			
excess supply			

Recall

In topic 1 you saw that prices guide a market. Bring this with you:

- Buyers want **low** prices; sellers want **high** prices.
- The price settles somewhere in between.

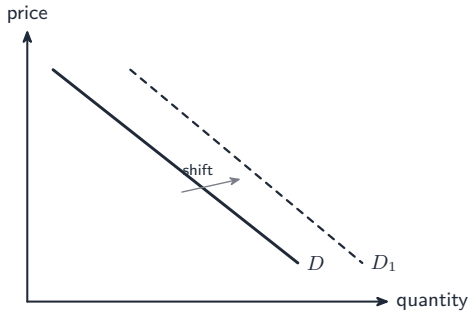
At AS we draw **demand** and **supply** as curves and find the market price where they meet.

New ideas

1 Demand

Demand is how much of a good buyers will buy at each **price**. The **law of demand**: when the price rises, the **quantity demanded** falls. So the **demand curve** slopes **downward**.

A change in the good's own price is a **movement along** the curve. Other causes **shift** the whole curve: income, the price of a **substitute** or **complement**, and tastes.

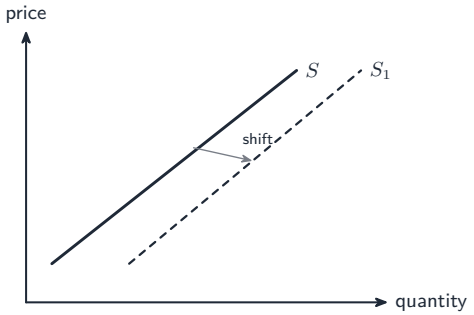


Micro-check. What happens to the quantity demanded when the price rises? [1]

2 Supply

Supply is how much of a good sellers will offer at each price. The **law of supply**: when the price rises, the quantity supplied rises (more profit). So the **supply curve** slopes **upward**.

Other causes shift it: production costs, technology, and a **subsidy** (raises supply) or a tax (lowers it).

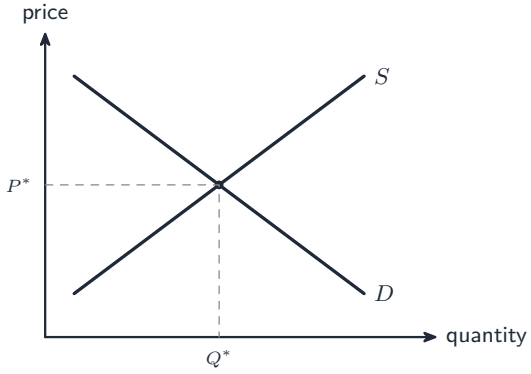


Micro-check. Why does the supply curve slope upward? [1]

■ 3 Equilibrium

The market settles at **equilibrium** , where the demand curve crosses the supply curve. This gives the **equilibrium price** , where the amount demanded equals the amount supplied.

- if the price is **too low** → **excess demand** (a **shortage**), so the price is pushed up;
- if the price is **too high** → **excess supply** , so the price is pushed down.



Micro-check. At equilibrium, what is true about quantity demanded and quantity supplied? [1]

Watch out: a change in the good's *own* price *moves along* the curve; any *other* cause (income, related-good prices, tastes, costs) *shifts* the whole curve. Below equilibrium → shortage (price rises); above → surplus (price falls).

Practice

2.1 State the **law of demand**. [1]

2.2 Give **one** cause that would shift the **demand** curve to the right. [1]

2.3 State the **law of supply**, and say why it holds. [2]

2.4 Explain what is meant by the **equilibrium price**. [2]

2.5 A price is set **below** the equilibrium. State what this causes, and what then happens to the price. [2]

2.6 Challenge. The price of coffee beans (a key input) rises sharply. Using demand and supply, explain what happens to the supply of coffee and to its equilibrium price. [2]