

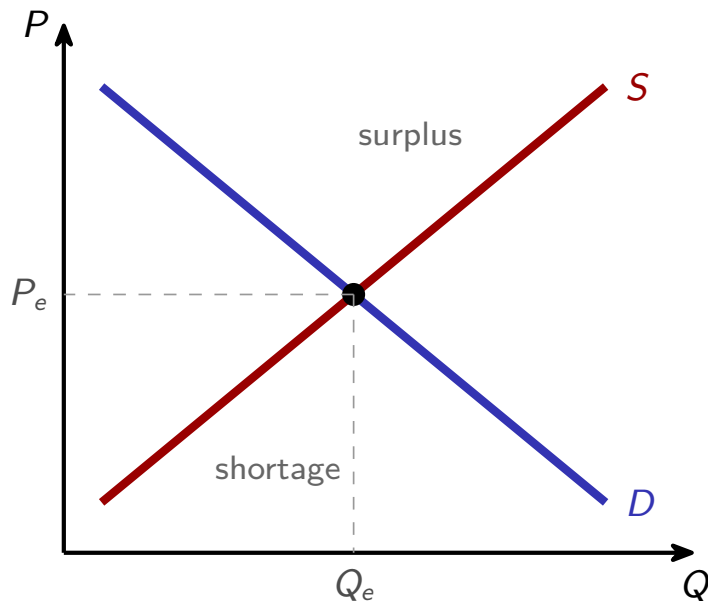
Exercise walk-through

1.6

Market Equilibrium, Disequilibrium, and Changes in Equilibrium

AP Macroeconomics

Market equilibrium

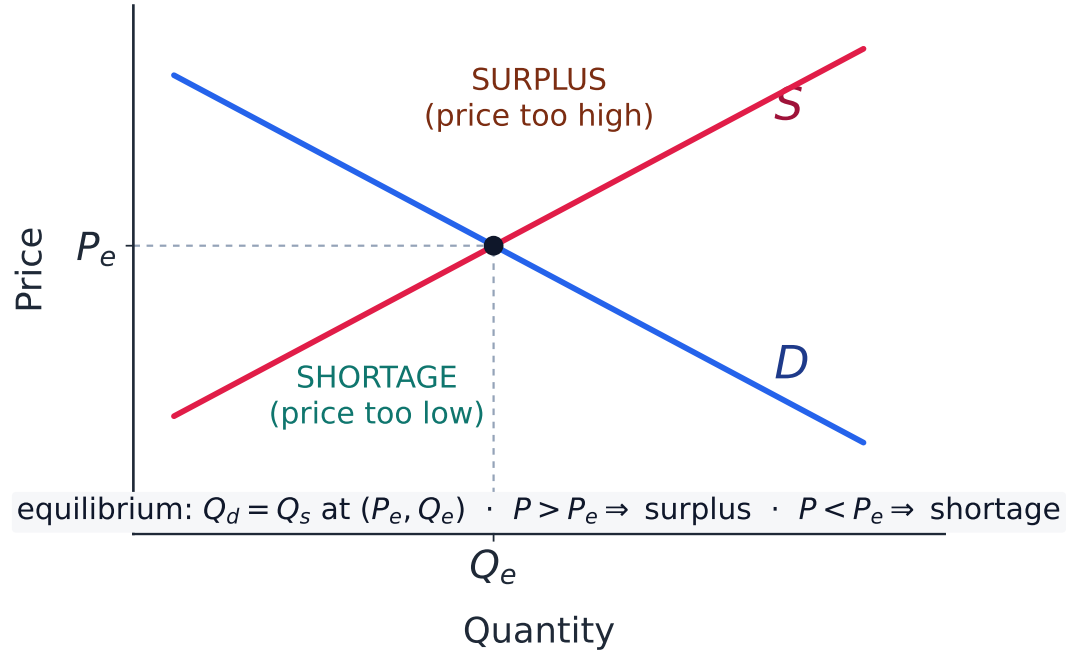


Equilibrium : where supply meets demand – no pressure to change.

- price **above** P_e : a **surplus** $\Rightarrow$ sellers cut price
- price **below** P_e : a **shortage** $\Rightarrow$ buyers bid it up

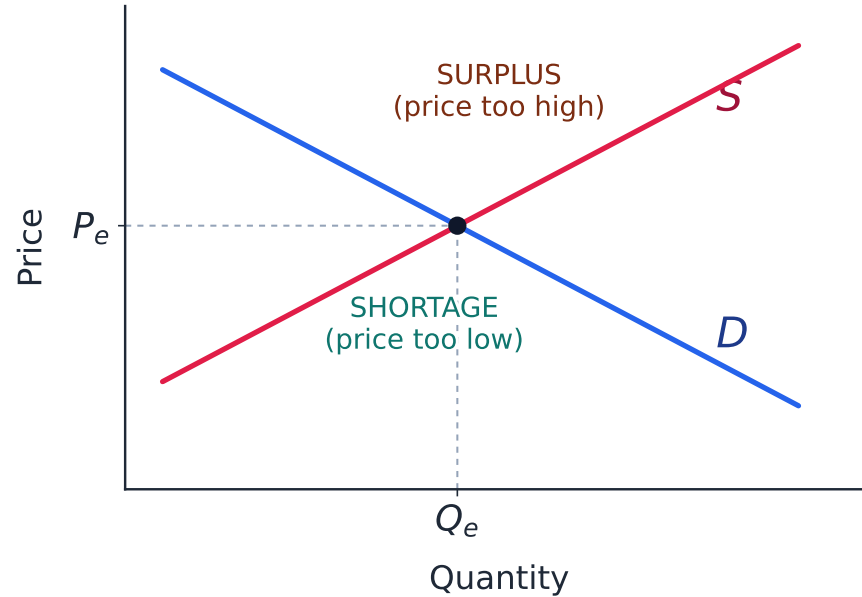
Both push the market back toward P_e .

Market equilibrium sits where supply meets d – one



Market equilibrium sits where supply meets demand; away from it lie surplus and shortage

Market equilibrium sits where supply meets d – two



Equilibrium price and quantity where demand meets supply

Four cases – how a shift moves equilibrium

Demand rises

$P \uparrow$ $Q \uparrow$

Demand falls

$P \downarrow$ $Q \downarrow$

Supply rises

$P \downarrow$ $Q \uparrow$

Supply falls

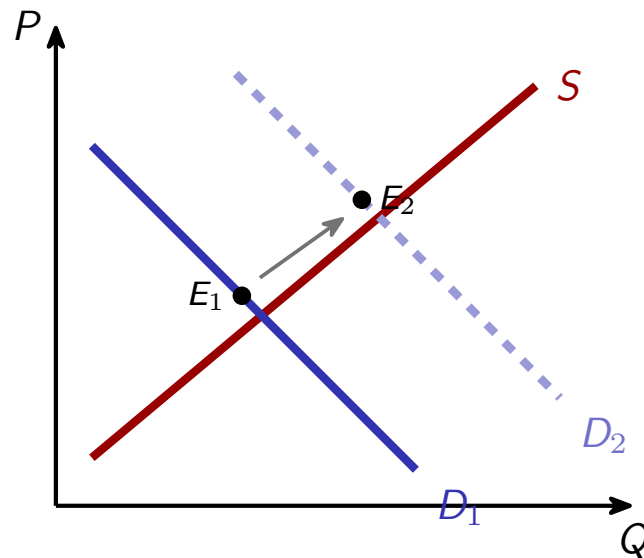
$P \uparrow$ $Q \downarrow$

Worked example – a hot summer

Demand for ice cream rises

The curve shifts **right** ($D_1 \rightarrow D_2$). At the old price a **shortage** appears, so the price rises to a new equilibrium at a **higher price and higher quantity**.

If input costs *also* rise (supply shifts left), price rises even more – but the effect on quantity becomes **ambiguous**.



Exercises 2.1-2.3

2.1 Define market equilibrium.

[1]

2.2 State what happens to price when there is a surplus.

[1]

2.3 State the effect of an increase in demand on the equilibrium price and quantity. [2]

Exercises 2.1-2.3

2.1 Define market equilibrium.

[1]

2.1

- the price and quantity at which quantity supplied equals quantity demanded
-

2.2 State what happens to price when there is a surplus.

[1]

2.2

- it falls
-

2.3 State the effect of an increase in demand on the equilibrium price and quantity. [2]

2.3

- price falls and quantity rises

Exercises 3.1-3.2

3.1 A price set above equilibrium creates a

[1]

☐

A shortage

B surplus

C new equilibrium

D trade deficit

3.2 A binding price ceiling causes a

[1]

☐

A surplus

B shortage

C higher price

D no effect

Exercises 3.1-3.2

3.1 A price set above equilibrium creates a

[1]

☐

A shortage

B surplus

C new equilibrium

D trade deficit

3.1 B

- surplus.

3.2 A binding price ceiling causes a

[1]

☐

A surplus

B shortage

C higher price

D no effect

3.2 B

- shortage.

Exercise 3.3 (a)

3.3 In the market for apples, a good harvest increases supply.

(a) State the effect on the equilibrium price.

[1]

Exercise 3.3 (a)

3.3 In the market for apples, a good harvest increases supply.

(a) State the effect on the equilibrium price.

[1]

(a)

- it falls

Exercise 3.3 (b)

3.3 In the market for apples, a good harvest increases supply.

(b) State the effect on the equilibrium quantity.

[1]

Exercise 3.3 (b)

3.3 In the market for apples, a good harvest increases supply.

(b) State the effect on the equilibrium quantity.

[1]

(b)

- it rises

Exercise 3.3 (c)

3.3 In the market for apples, a good harvest increases supply.

(c) If demand **also** rises at the same time, state which of price or quantity becomes indeterminate.

[1]

Exercise 3.3 (c)

3.3 In the market for apples, a good harvest increases supply.

(c) If demand **also** rises at the same time, state which of price or quantity becomes indeterminate. [1]

(c)

- the price becomes indeterminate (quantity clearly rises)