Exercise walk-through

Market Equilibrium, Disequilibrium, and Changes in Equilibrium ▪ 1.6

eXercise

You must be able to

- identify the **equilibrium 均衡** price and quantity where supply meets demand
- explain how a **surplus 过剩** or **shortage 短缺** pushes price back to equilibrium
- predict the effect of a shift in supply or demand on price and quantity
- explain how a binding **price ceiling 价格上限** or **price floor 价格下限** works

Method — Equilibrium

The price where quantity supplied equals quantity demanded; there is no pressure to change.

Method — Surplus and shortage

Above equilibrium → a **surplus** (excess supply), so price **falls**. Below equilibrium → a **shortage** (excess demand), so price **rises**.

Method — Shifts

- Demand **rises** $\rightarrow$ price up, quantity up.
- Supply **rises** $\rightarrow$ price down, quantity up.

A binding **ceiling** (below equilibrium) causes a lasting **shortage**; a binding **floor** (above) causes a lasting **surplus**.

Practice 2.1 ▪ 1 mark

Define market equilibrium.

Solution 2.1

Worked steps

the price and quantity at which quantity supplied equals quantity demanded **B1**.

Practice 2.2 ▪ 1 mark

State what happens to price when there is a surplus.

Solution 2.2

Worked steps

it falls **B1**.

Practice 2.3 ▪ 2 marks

State the effect of an increase in demand on the equilibrium price and quantity.

Solution 2.3

Method: Shifts

Worked steps

price falls and quantity rises **B1** **B1**.

Exam-style 3.1 ▪ 1 mark

A price set above equilibrium creates a

A shortage

B surplus

C new equilibrium

D trade deficit

Solution 3.1

A shortage

B surplus ✓

C new equilibrium

D trade deficit

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A binding price ceiling causes a

- **A** surplus
- **B** shortage
- **C** higher price
- **D** no effect

Solution 3.2

Method: Shifts

A surplus

B shortage ✓

C higher price

D no effect

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

In the market for apples, a good harvest increases supply.
(a) State the effect on the equilibrium price.
(b) State the effect on the equilibrium quantity.
(c) If demand **also** rises at the same time, state which of price or quantity becomes indeterminate.

Solution 3.3

Method: Shifts

Worked steps

(a) it falls **B1**. (b) it rises **B1**. (c) the price becomes indeterminate (quantity clearly rises) **B1**.