2 Demand, supply, and surplus – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
Demand			
supply			
Equilibrium			
Consumer surplus			
Producer surplus			

Recall

You have seen prices respond to buyers and sellers:

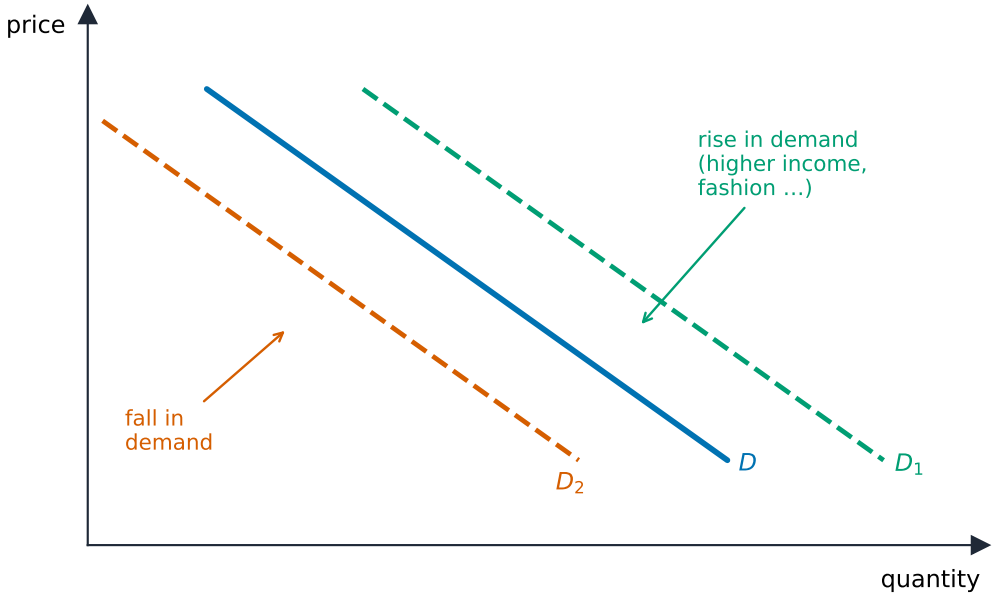
- Popular goods tend to cost more.
- When shops have too much stock, they cut prices.
- A market price is where buyers and sellers agree.

This sheet lines up demand, supply, and market equilibrium. Each idea has a worked example.

New ideas

■ 1 Demand and supply

Demand slopes **downward** (buyers buy less as price rises); **supply** slopes **upward** (sellers offer more as price rises).



2 Equilibrium

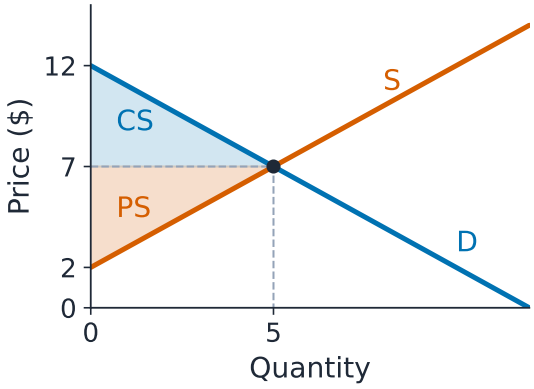
Equilibrium is where supply meets demand – the price that clears the market. Above it there is a surplus (price falls); below it a shortage (price rises).

3 Consumer and producer surplus

- **Consumer surplus** is the gap between what buyers would pay and what they do pay.
- **Producer surplus** is the gap between the price and sellers' lowest acceptable price.

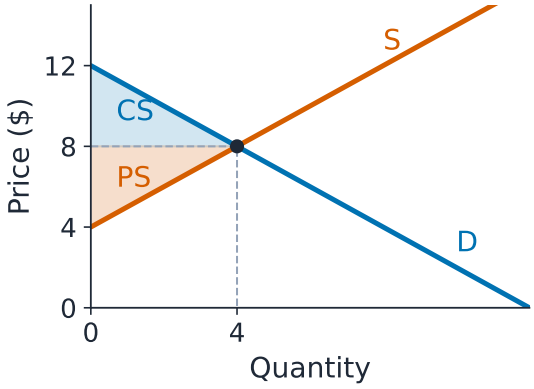
Demand: P = 12 − Q; supply: P = 2 + Q, then P = 4 + Q

Before: lower costs



P = 7; Q = 5; CS = PS = $12.5

After: higher costs



P = 8; Q = 4; CS = PS = $8

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■ 4 Shifts

If a determinant (income, tastes, costs) changes, a curve shifts. A rightward demand shift raises both price and quantity; a rightward supply shift lowers price but raises quantity.

Watch out: the competitive equilibrium **maximizes** total surplus (consumer plus producer). That is why free markets are called efficient – they leave no mutually beneficial trade undone.

Practice

Try these in order. The methods are all above.

2.1 State the direction each of the demand and supply curves slopes. [2]

2.2 State what happens to price above the equilibrium, and why. [2]

2.3 Explain what consumer surplus is. [2]

2.4 A rise in income shifts demand right. State what happens to equilibrium price and quantity. [2]

2.5 State what the competitive equilibrium does to total surplus. [1]