

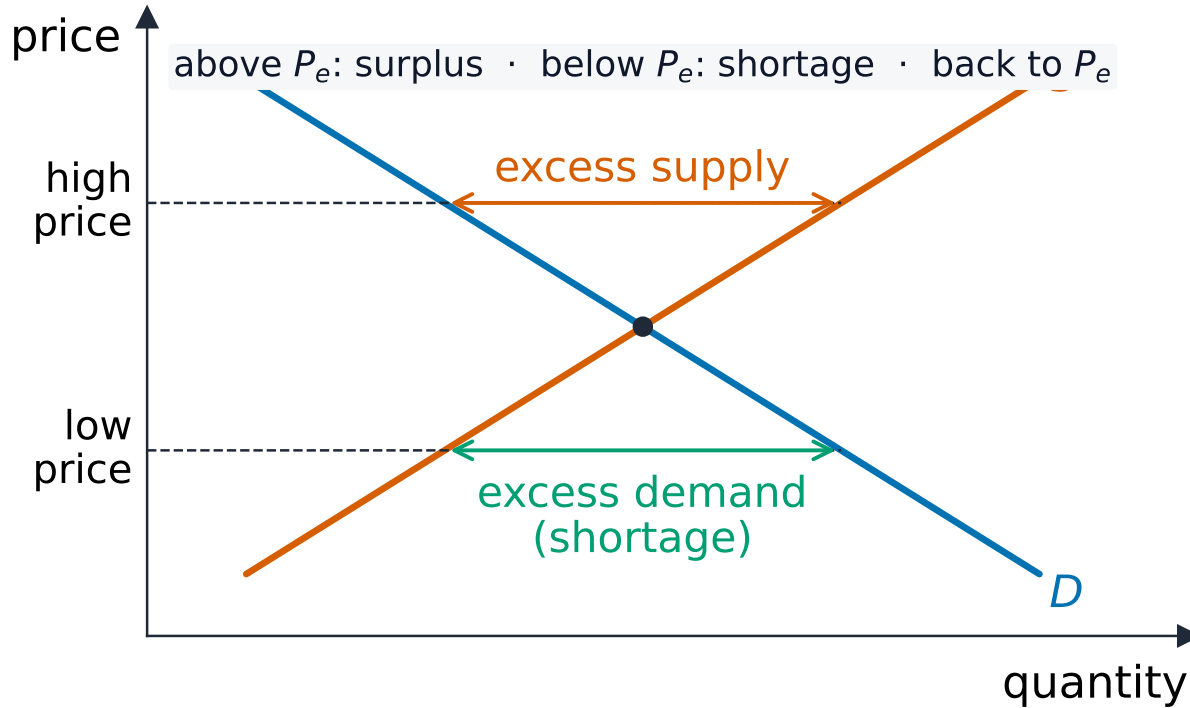
Exercise walk-through

2.4

Price determination

IGCSE Economics

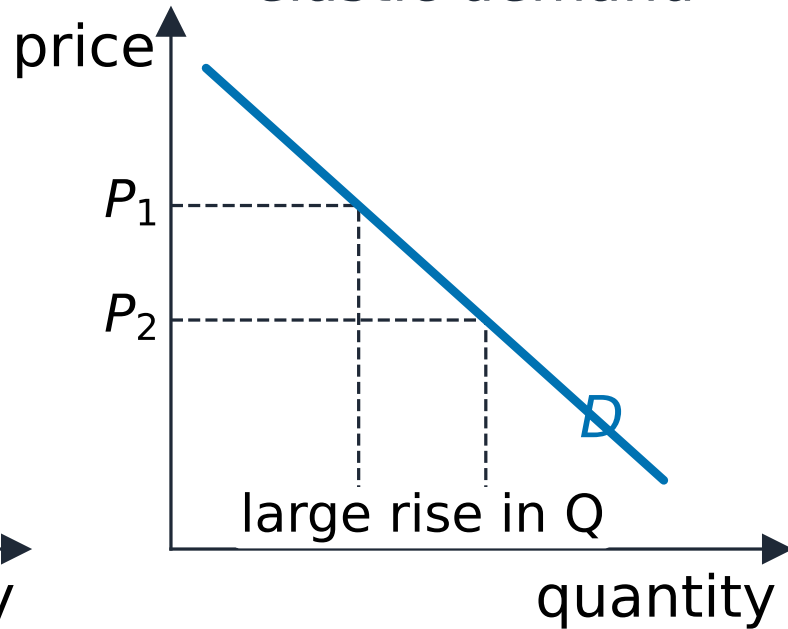
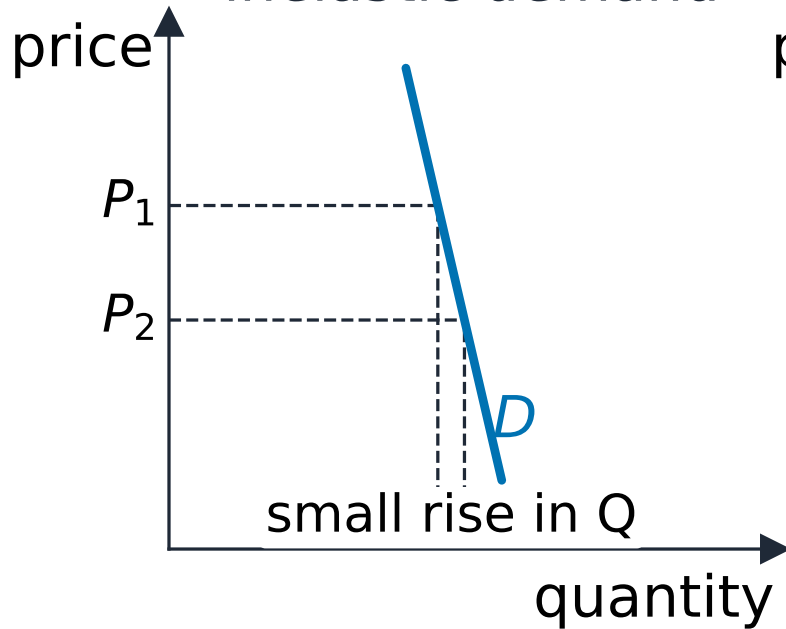
Equilibrium – two



Equilibrium

Reading the elasticity value, in detail

$PED = \% \Delta Q_d / \% \Delta P$ · flatter D = more elastic
inelastic demand elastic demand



Steep is inelastic; shallow is elastic

The market system, weighed both ways

advantage

prices guide resources to where they are wanted, **without anyone planning**

advantage

consumers have wide choice, and firms compete to win them

advantage

a strong incentive to work, invest and invent

drawback

the strong – rich firms and people – do well; the weak may be left with nothing

drawback

some goods are not supplied at all, and pollution is not counted

inefficient outcomes

monopoly power, and missing information, both distort the price signal

The mixed economy exists because both columns are true. Every evaluation question wants at least one line from each.

Exercises 2.1-2.3

2.1 Define the term *equilibrium price*.

[2]

2.2 State what is true about quantity demanded and quantity supplied at equilibrium.[1]

2.3 State what determines the price of a good in a free market.

[1]

Exercises 2.1·2.3

2.1 Define the term *equilibrium price*. [2]

2.1

- **equilibrium price** is the price at which quantity demanded **equals** quantity supplied, so there is no pressure for it to change (K)
-

2.2 State what is true about quantity demanded and quantity supplied at equilibrium. [1]

2.2

- at equilibrium they are **equal** (K)
-

2.3 State what determines the price of a good in a free market. [1]

2.3

- the **interaction of demand and supply** (where they cross) (K)

Exercises 3.1-3.2

3.1 At the equilibrium price:

[1]

☐

A there is excess demand

B there is excess supply

C quantity demanded equals quantity supplied

D the price is rising

3.2 Using a demand and supply diagram, show and explain the equilibrium price and quantity.

[4]

Exercises 3.1-3.2

3.1 At the equilibrium price:

[1]

☐

- A there is excess demand
- B there is excess supply
- C quantity demanded equals quantity supplied
- D the price is rising

3.1 C

- at equilibrium, quantity demanded **equals** quantity supplied (K)
- A is a shortage; B is a surplus; D is a market still adjusting

3.2 Using a demand and supply diagram, show and explain the equilibrium price and quantity.

[4]

3.2

- draw labelled demand and supply curves that **cross** (K)
- they cross at one point $\rightarrow$ equilibrium price P_e and quantity Q_e (An)
- here the amount buyers want **exactly equals** the amount firms supply (An)

Exercise 3.3

3.3 Analyse how the equilibrium price and quantity change when demand for a good increases. [6]

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3.3

- an increase in demand **shifts demand right** (K)
- at the old price there is **excess demand** (a shortage) (An)
- buyers bid the price up; quantity supplied rises along the supply curve → **higher price and higher quantity** (An)