

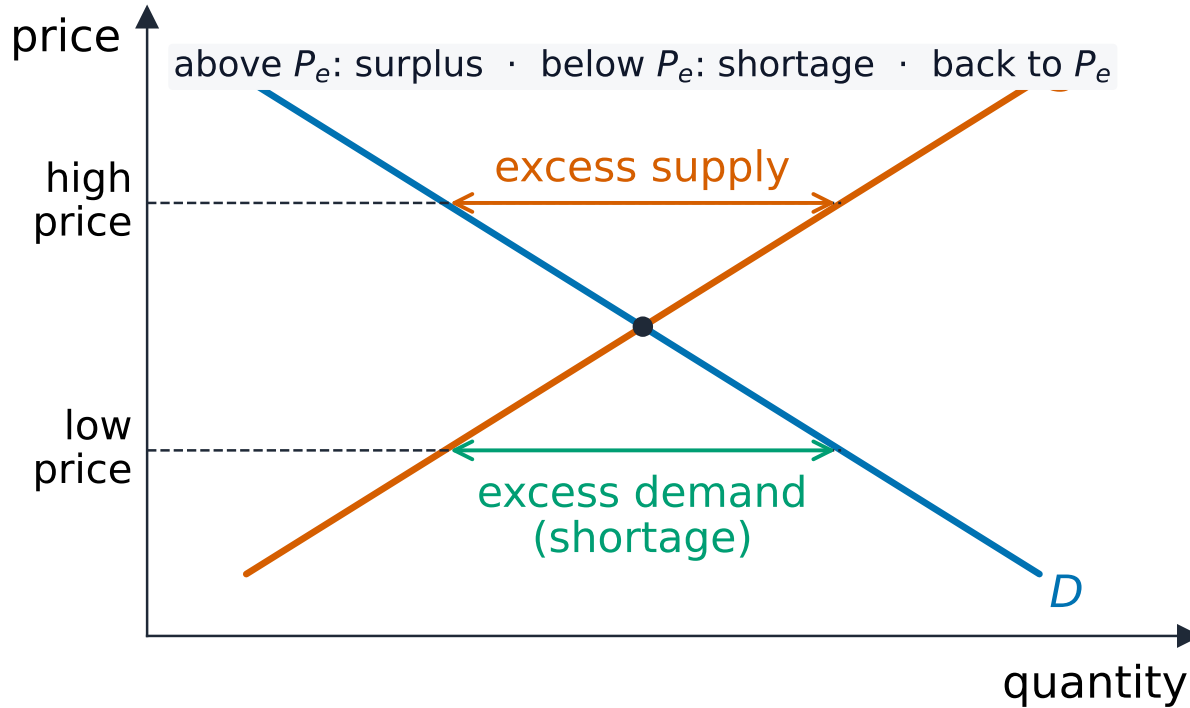
Exercise walk-through

2.5

Price changes

IGCSE Economics

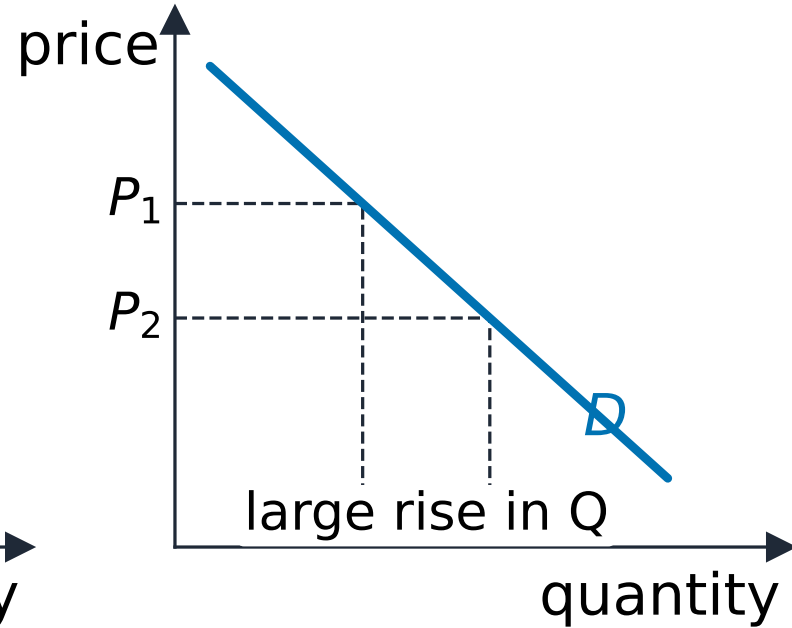
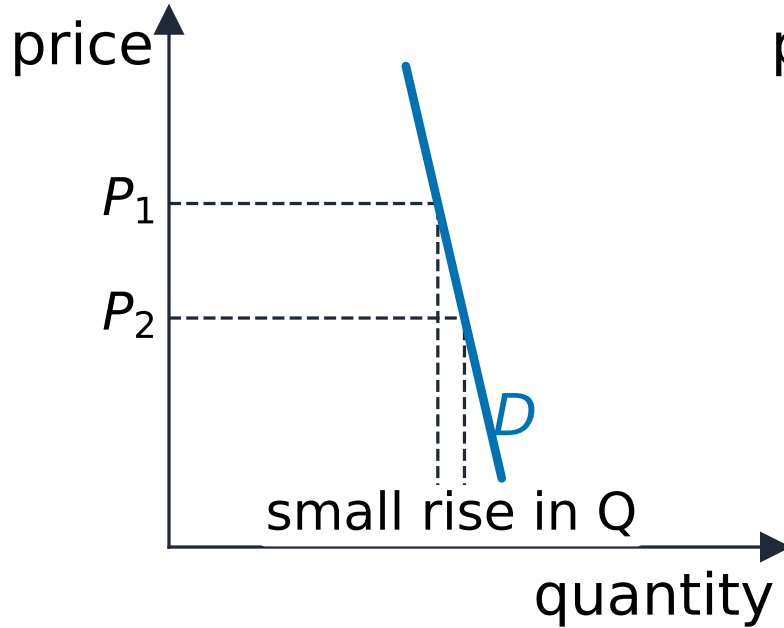
Equilibrium – two



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 *excess demand*.

[2]

2.2 State what happens to price when there is a **surplus** (excess supply).

[1]

2.3 State the effect on equilibrium price and quantity of a rightward shift in supply. [2]

Exercises 2.1-2.3

2.1 Define the term *excess demand*.

[2]

2.1

- **excess demand** is when, at the current price, quantity demanded is **greater** than quantity supplied (a **shortage**) (K)

2.2 State what happens to price when there is a **surplus** (excess supply).

[1]

2.2

- a surplus means unsold stock builds up
- the price **falls** (K)

2.3 State the effect on equilibrium price and quantity of a rightward shift in supply. [2]

2.3

- a rightward shift in supply
- **price falls** and **quantity rises** (K, K)

Exercises 3.1·3.2

3.1 A price set **below** the equilibrium price will cause:

[1]

☐

A excess supply, pushing price down

B excess demand, pushing price up

C the market to stay in equilibrium

D the demand curve to shift left

3.2 Explain how a market with a **surplus** returns to equilibrium.

[4]

Exercises 3.1-3.2

3.1 A price set **below** the equilibrium price will cause:

[1]

☐

- A excess supply, pushing price down
- B excess demand, pushing price up
- C the market to stay in equilibrium
- D the demand curve to shift left

3.1 B

- a price **below** equilibrium causes **excess demand**, which pushes the price **up** (K)
- A is a price above equilibrium; C and D are false

3.2 Explain how a market with a **surplus** returns to equilibrium.

[4]

3.2

- a surplus means firms supply **more than buyers want** at the current price (K)
- unsold stock builds up, so sellers **cut the price** (An)
- as price falls, quantity demanded rises and quantity supplied falls → the market **returns to equilibrium** (An)

Exercise 3.3

3.3 Bad weather destroys part of a coffee harvest. Analyse the effect on the market for coffee. [6]

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3.3

- destroying part of the harvest **cuts supply** – the supply curve **shifts left** (K)
- at the old price there is **excess demand** (An)
- the price is bid up → a **higher price and lower quantity** of coffee (An)