

2.4 Price determination

Name: _____ Class: _____ Date: _____ Total: 15 marks

KEY WORDS equilibrium • price determination • demand • supply
• market

Objective

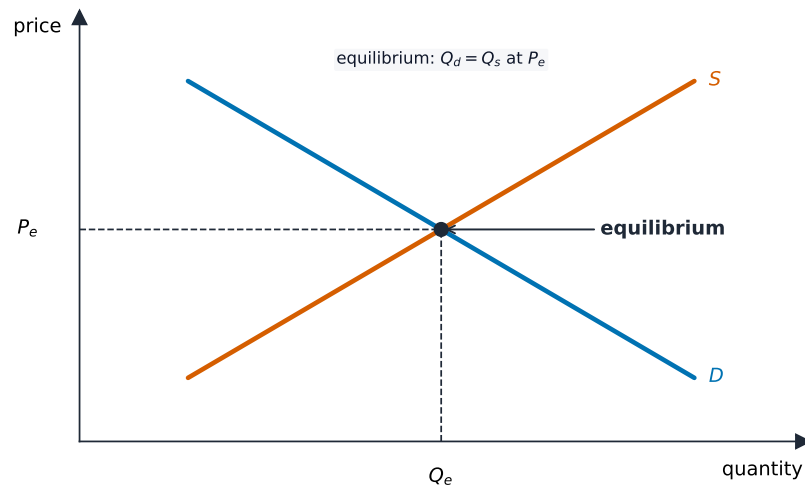
Build the skills to answer exam questions on **price determination** – market **equilibrium**, the equilibrium price and quantity, and reading a demand-and-supply diagram.

You must be able to:

- draw demand and supply and find the equilibrium
- explain why equilibrium is where quantity demanded equals quantity supplied
- read changes in equilibrium from a diagram

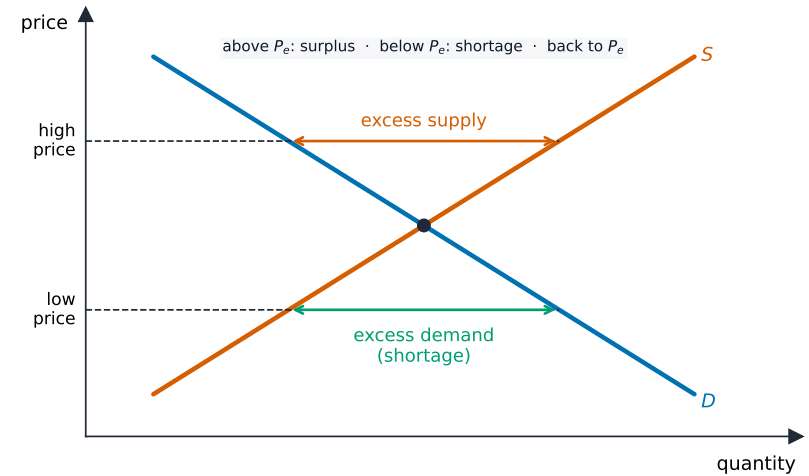
1 Key knowledge and worked examples

■ Market equilibrium



At equilibrium P_e , Q_e : quantity demanded = quantity supplied

- **Equilibrium** : the price where the amount buyers want to buy exactly equals the amount firms want to sell.
- At equilibrium there is no shortage and no surplus – no pressure for the price to change.
- The crossing point of the two curves gives the equilibrium price **and** quantity.



Away from equilibrium a shortage or surplus forces the price back to P_e

Answer shapes: an **Analyse** [up to 6] answer should use a labelled diagram; **Discuss** [8] adds a judgement (Ev).

2 Practice

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]

3 Exam-style questions

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]

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