

2.5 Price changes

Name: _____ Class: _____ Date: _____

Total: 16 marks

KEY WORDS shortage • excess demand • excess supply • surplus
• disequilibrium

Objective

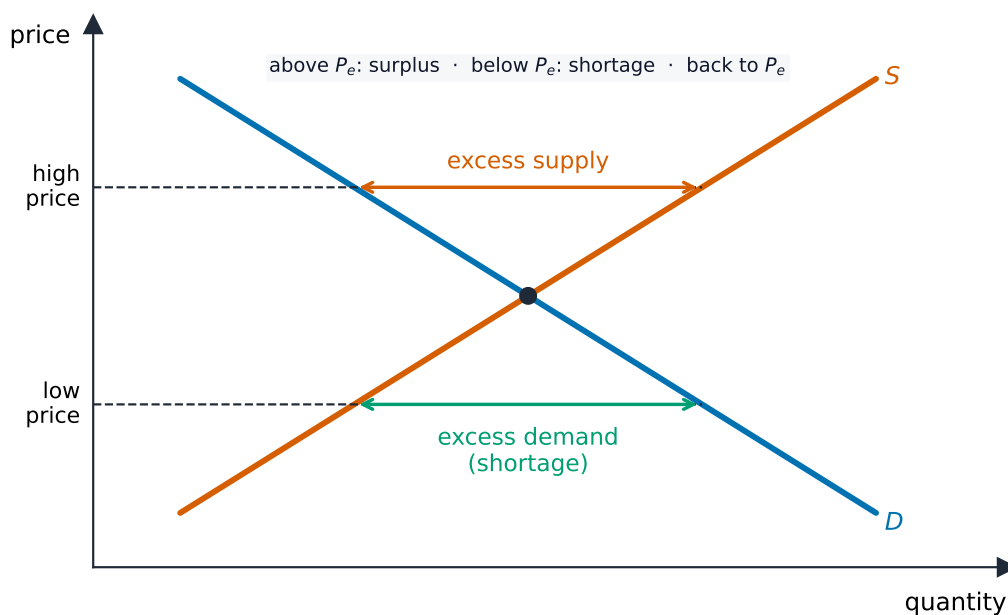
Build the skills to answer exam questions on **price changes** – how a **shift** in demand or supply changes the equilibrium, and **disequilibrium** (excess demand and excess supply).

You must be able to:

- state how a shift in demand or supply changes price and quantity
- explain excess demand (a shortage) and excess supply (a surplus)
- analyse how the market returns to equilibrium

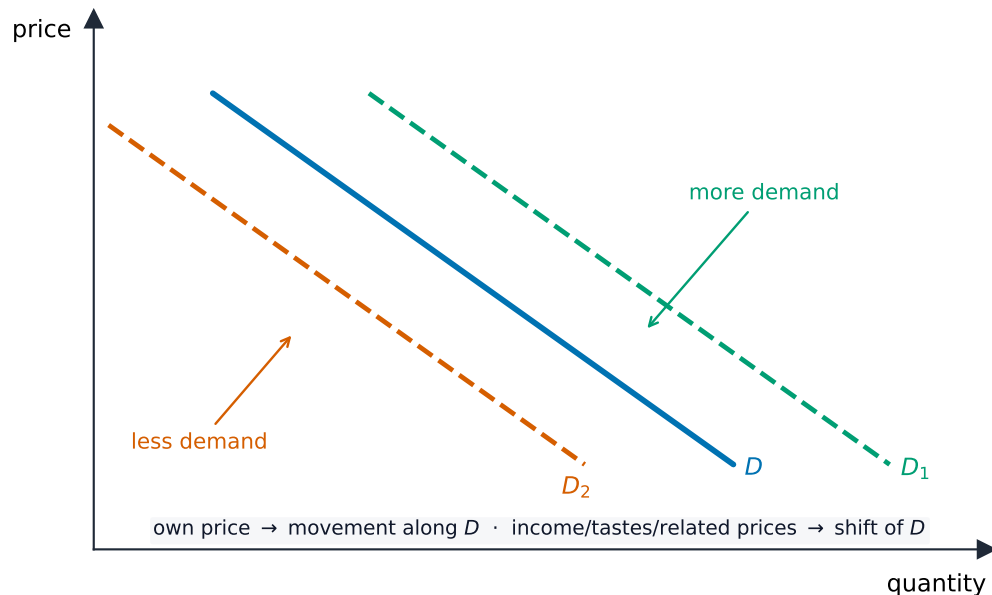
1 Key knowledge and worked examples

■ Disequilibrium



Either way the price is pushed back to equilibrium

- **Demand right** → price ↑, quantity ↑. **Supply right** → price ↓, quantity ↑.
- **Excess demand** (price too low) = a **shortage** → buyers compete, price rises.
- **Excess supply** (price too high) = a **surplus** → sellers cut the price.



A shift in demand (or supply) moves the equilibrium to a new price and quantity

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 *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]

3 Exam-style questions

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]

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

[6]
