Exercise walk-through

Price changes ▪ 2.5

eXercise

You must be able to

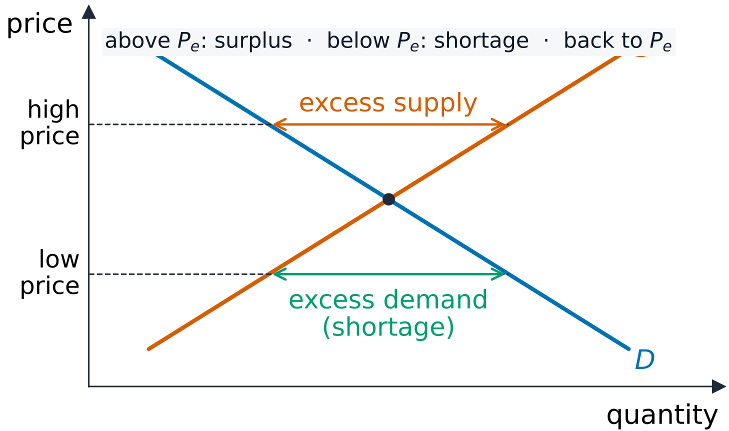
- state how a shift in demand or supply changes price and quantity
- explain excess demand (a shortage) and excess supply (a surplus)
- analyse how the market returns to equilibrium

Method — Disequilibrium

- **Demand right** $\rightarrow$ price $\uparrow$, quantity $\uparrow$. **Supply right** $\rightarrow$ price $\downarrow$, quantity $\uparrow$.
- **Excess demand 超额需求** (price too low) = a **shortage 短缺** $\rightarrow$ buyers compete, price rises.
- **Excess supply 超额供给** (price too high) = a **surplus 过剩** $\rightarrow$ sellers cut the price.

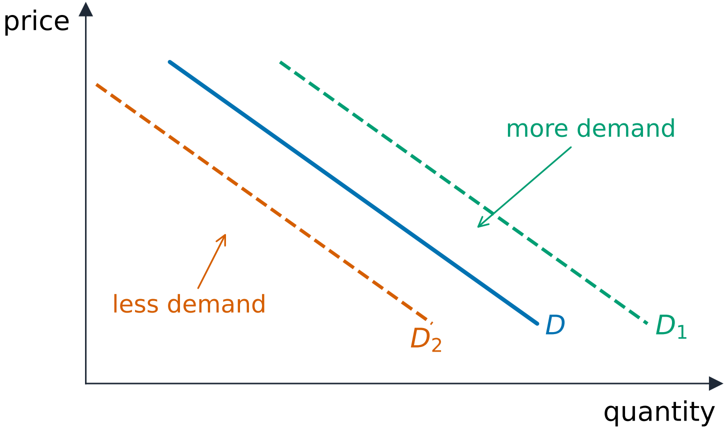
Answer shapes: an **Analyse [up to 6]** answer should use a labelled diagram; **Discuss [8]** adds a judgement (Ev).

Method — Disequilibrium



Above equilibrium there is excess supply; below it there is excess demand

Method — Disequilibrium



A change in income, tastes or related prices shifts the whole demand curve

Practice 2.1 ▪ 2 marks

Define the term *excess demand*.

Solution 2.1

Method: Disequilibrium

Worked steps

when, at the current price, the quantity demanded is greater than the quantity supplied (a shortage) (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 1 mark

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

Solution 2.2

Method: Disequilibrium

Worked steps

the price falls (1).

Practice 2.3 ▪ 2 marks

State the effect on equilibrium price and quantity of a rightward shift in supply.

Solution 2.3

Method: Disequilibrium

Worked steps

price falls and quantity rises $(1 + 1)$.

Exam-style 3.1 ▪ 1 mark

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

- **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

Solution 3.1

Method: Disequilibrium

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

Worked steps

B. Below equilibrium there is excess demand, which pushes the price up.

Exam-style 3.2 ▪ 4 marks

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

Solution 3.2

Method: Disequilibrium

Worked steps

[4] K 1 + An up to 3 — a surplus means firms supply more than buyers want at the current price → unsold stock builds up → sellers cut the price → as price falls, quantity demanded rises and quantity supplied falls → the market returns to equilibrium.

Exam-style 3.3 ▪ 6 marks

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

Solution 3.3

Worked steps

[6] K/App/An (diagram: supply shifts left) — destroying part of the harvest cuts supply $\rightarrow$ the supply curve shifts left $\rightarrow$ at the old price there is excess demand $\rightarrow$ the price is bid up $\rightarrow$ the new equilibrium has a higher price and lower quantity of coffee.