2.4 Price determination

Name: ____________ Class: ________ Date: __________ **Total: 15 marks**

Objective

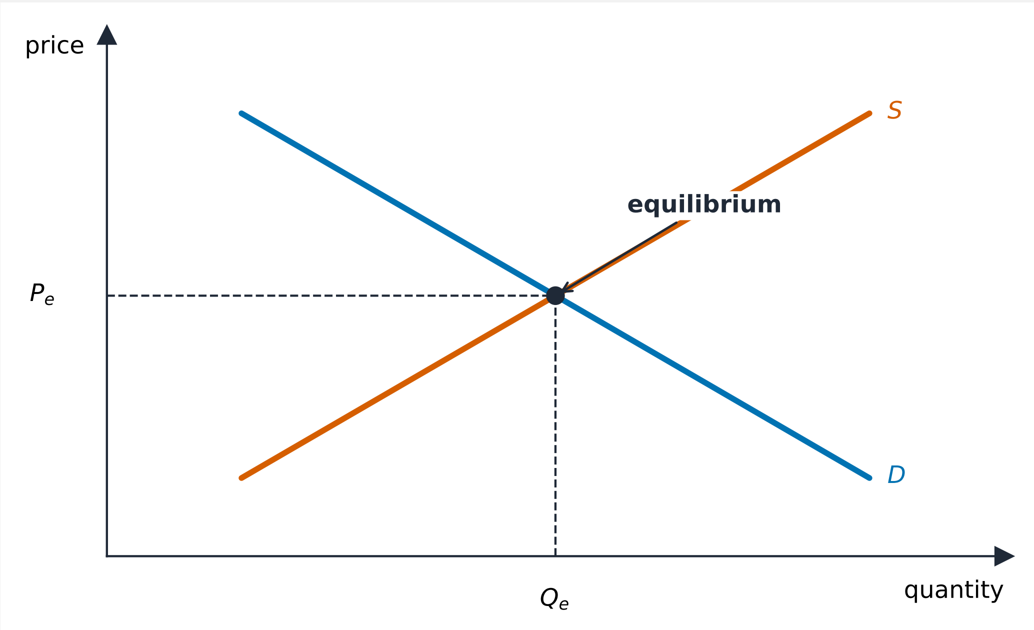
Build the skills to answer exam questions on **price determination** 价格决定—market **equilibrium** 均衡, the equilibrium price and quantity, and reading a demand-and-supply diagram.

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 Worked examples

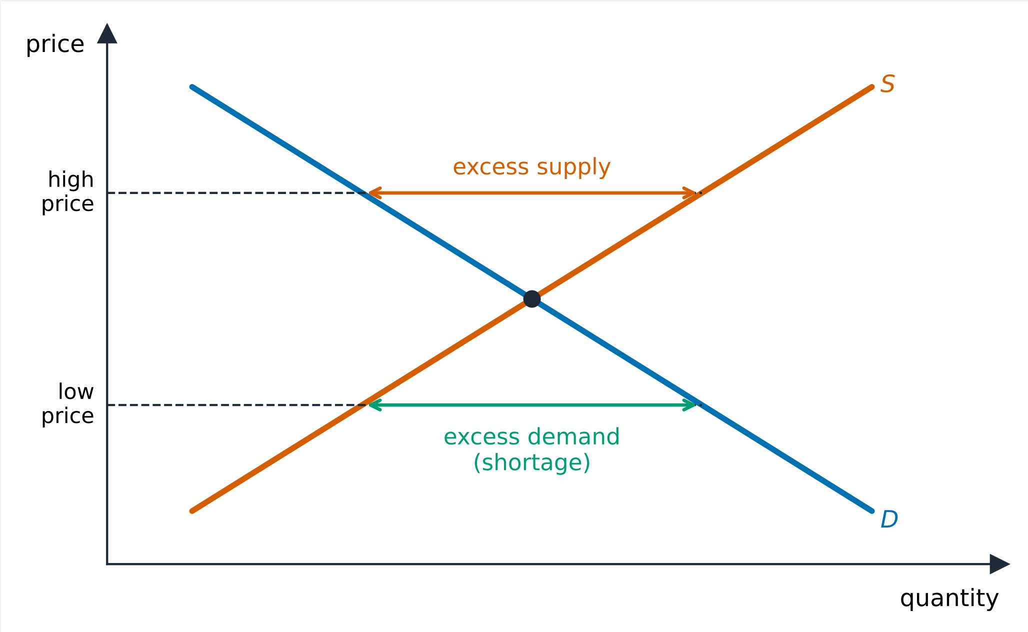
Market equilibrium



At equilibrium P_e, Q_e: quantity demanded = quantity supplied

- **Equilibrium** 均衡: 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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **2.4 Price determination** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q9 (equilibrium)
- 0455/11 N25 —Q10 (price determination)
- 0455/12 N25 —Q6 (demand and supply)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the price at which the quantity demanded equals the quantity supplied, so there is no pressure for it to change (2 for a clear definition; 1 for a partial idea).

2.2 they are equal (1).

2.3 the interaction of demand and supply (where they cross) (1).

3.1 C. At equilibrium, quantity demanded equals quantity supplied.

3.2 *[4]* K 1 + **diagram up to 2** (labelled demand and supply curves crossing) + An 1 —the two curves cross at one point → this gives the equilibrium price P_e and quantity Q_e → here the amount buyers want exactly equals the amount firms supply.

3.3 *[6]* K/App/An (diagram: demand shifts right) —an increase in demand shifts the demand curve right → at the old price there is excess demand (a shortage) → buyers compete and bid the price up → as price rises, quantity supplied rises along the supply curve → a new equilibrium at a higher price and higher quantity.