

2.4 Price determination

Name: _____ Class: _____ Date: _____

Total: 15 marks

KEY WORDS equilibrium 均衡 • price determination 价格决定 • demand 需求 • supply 供给
• market 市场

Objective

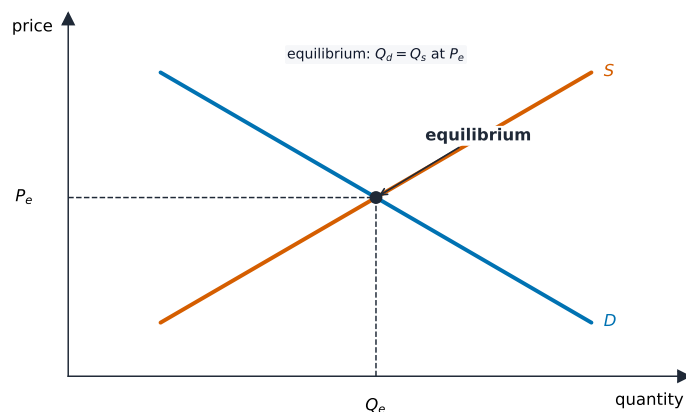
Build the skills to answer exam questions on **price determination** 价格决定 — market **equilibrium** 均衡, the equilibrium price and quantity, and reading a demand-and-supply diagram.

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

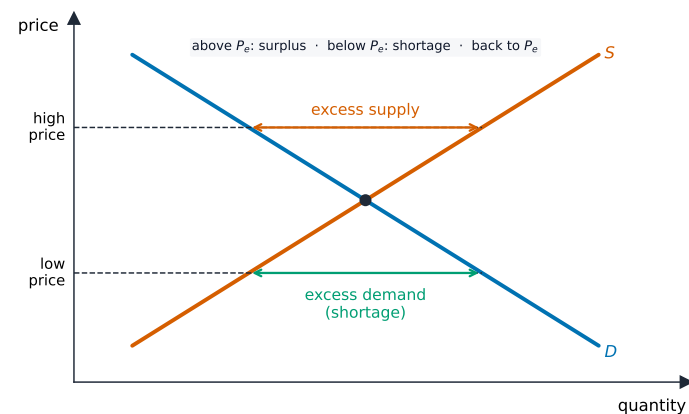
■ Market equilibrium



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

B

C

D
- 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]