Market Equilibrium Price (______) Notes

- Assuming competition exists in the marketplace, price are determined in a _________ _________ through the interaction of __________ and ________.

- This means that without government intervention, the "___________ ______" of the marketplace coordinates the quantities that consumers are willing and able to purchase (_________) and that producers are willing and able to provide for sale (_________) at various prices at a particular point in time.
- When the market matches up the two sides (_______ and __________) of the market, a ________ _______ is determined. This market price is the price at which all that is _____________ is ____________.
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Equilibrium in the Marketplace

- The Pe (price equilibrium) = ______
- The Qe (quantity equilibrium) = ___
- At market price, what is the relationship of QS____ QD
- Because of this relationship, the market is said to be in ____________ at the market price. Therefore, the market price is also called the ________________ price (Pe) and the quantity at the market price is called the _____________quantity or the Qe. The market price and quantity price (Pe and Qe) are found at the _____________ of the supply and demand curves.

Disequilibrium in the Marketplace

- If the seller or sellers decide to raise the price of the good above the market price (Pe) from $2 to $3, then

___ P above Pe

____ QD _____QS

____ S _____ D

QD _____ QS

Therefore, _______________

- If a seller or sellers decide to lower the price of the good below the market price (Pe) from $2 to $1, then

P ___ Pe

____ QD _____QS

____ S _____ D

At the new lower price

QD _____ QS

Therefore, ________________.

How the market price is changed

- If a seller raises or lowers his/her price above or below the market equilibrium price (Pe), the result will be a _______ or ___________. This is because the change in price simply causes a movement along the demand or supply curves. This movement changes only the _____ and the _____, thus changing QD and QS to no longer be in balance.
- For the market price to change, there must be a new intersection of supply and demand; thus, the market price changes only if there has been a change in _________ or ________ resulting form a change in ___________ ________________. Such changes will cause _____ in the supply and demand curves, resulting in a new intersection therefore a new _____ and _____.

Effects of changes of supply and demand on market price

Increase in demand _____ D ____ Pe ____Qe

Decrease in demand _____ D ____ Pe ____Qe

Increase in supply ____ S ___ Pe ____Qe

Decrease in supply _____ S ____ Pe ___Qe

Government Interventions:

- People/businesses complain to the government:
  - Prices are too high
  - Prices are too low
- The government helps out
  - By lowering prices
  - By raising prices

Government interventions in the market place

- Sometimes the government intervenes in the operation of the _____ ______ because demands have been made on the government to do something about market prices that are "____ ____" or "____ _____". The government takes action in these instances to place legal barriers on the market that will not allow the ______ to fall below a certain price or to _____ above a certain price. These legal barriers are identified and defined below:

Price Floor/Ceiling

__________- a legal minimum price below the which price of a good is not allowed to fall (i.e., ________ ____) (creates surpluses)

__________- a legal maximum price above which the price of a good is not allowed to rise (i.e., _____ _______) (creates shortage)

- To be effective, a minimum price must be place _______ the equilibrium price. Such a price will create a ___________.
- To be effective, a maximum price must be place _______ the equilibrium price. Such a price will create a ___________.

4 things to remember

- Subsidy always leads to a increase in supply
- Increased technology always leads to increased supply
- Increase in price leads to increase in QS- law of supply
- Decrease in price leads to increase in QD- law of demand

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