

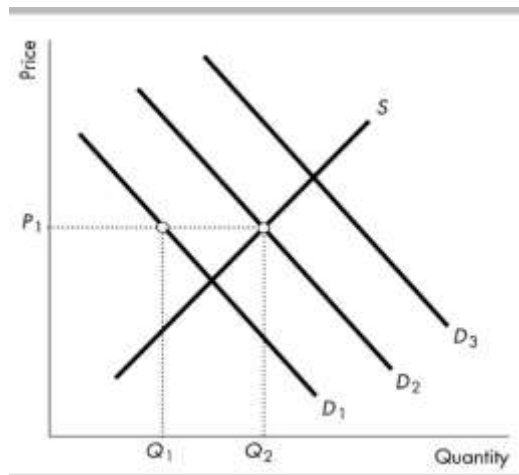
Equilibrium

- **Equilibrium** in a market where **quantity supplied equals the quantity demanded.**
- In a market, at the **equilibrium price**, **neither buyers nor sellers can do business at a better price.**
- If a market is **not in equilibrium**, then **the price will adjust to bring the market to equilibrium.**
- When a market is in **equilibrium**, there is **not a shortage, or surplus.**

• Questions on this part:

Which of the following is the best way to describe equilibrium in a market? At equilibrium, the-----

- A) price is the lowest possible.
- B) price is usually affordable to most people.
- C) supply and demand curves can never shift again.
- D) quantity supplied equals the quantity demanded.**



In the above figure, if the demand curve is D_2 , then-----

- A) the equilibrium price will be P_1 and the equilibrium quantity will be Q_2 .**
- B) the equilibrium price will be P_1 and the equilibrium quantity will be Q_1 .
- C) there will be a shortage equal to $Q_2 - Q_1$.
- D) an increase in price will shift the demand curve to D_3

If a market is NOT in equilibrium, then which of the following is likely to occur?

- A) The demand curve will shift to bring the market to equilibrium.
- B) The supply curve will shift to bring the market to equilibrium.
- C) The price will adjust to bring the market to equilibrium.**
- D) All of the answers are true.

In a market, at the equilibrium price,

A) neither buyers nor sellers can do business at a better price.

B) buyers are willing to pay a higher price, but sellers do not ask for a higher price.

C) buyers are paying the minimum price they are willing to pay for any amount of output and sellers are charging the maximum price they are willing to charge for any amount of production.

D) All of the answers are not true.

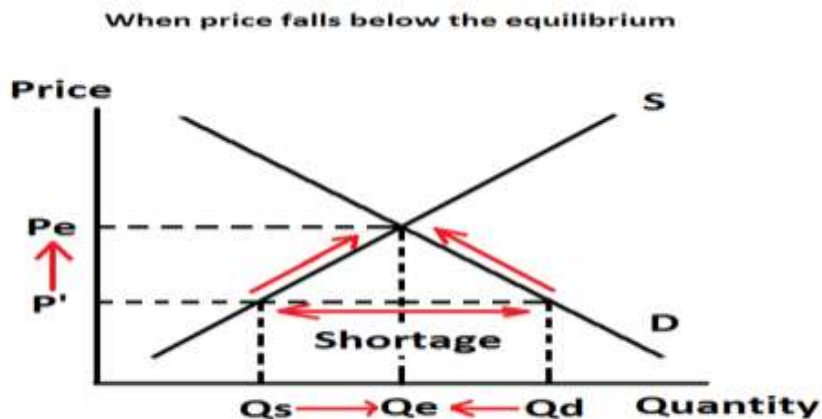
In a supply and demand figure, the equilibrium price and quantity are found at the point where quantity supplied equals quantity demanded. True

When a market is in equilibrium, there is a shortage. False

The equilibrium price is the price at which the quantity demanded equals the quantity supplied. True

Shortage

- When the price is **below the equilibrium** price, the quantity demanded exceeds the equilibrium quantity, but the quantity supplied is less than the equilibrium quantity. ($Q_d > Q_e$, $Q_s < Q_e$)



- If the price of good X is **below its equilibrium** price, there will be a **shortage** of good X and **the price will rise**.
- If the quantity of good X supplied is 20,000 per year and the quantity of good X demanded is 25,000 per year, there is a **shortage** in the market and **the price will rise**. ($Q_d > Q_s$)
- The existence of a **shortage** pushes the **price up**.

- **Questions on this part:**

When the price is below the equilibrium price, the quantity demanded-----

- A) is less than the equilibrium quantity and the quantity supplied also is less than the equilibrium quantity.
- B) is less than the equilibrium quantity but the quantity supplied exceeds the equilibrium quantity.
- C) exceeds the equilibrium quantity and the quantity supplied also exceeds the equilibrium quantity.

D) exceeds the equilibrium quantity but the quantity supplied is less than the equilibrium quantity.

If the price of a video rental is below its equilibrium price, there will be a _____ of video rentals and the price will _____ .

A) shortage; rise

- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

If the quantity of textbooks supplied is 10,000 per year and the quantity of textbooks demanded is 12,000 per year, there is a _____ in the market and the price will _____.

A) shortage; rise

- B) shortage; fall
- C) surplus; rise
- D) surplus; fall

If there exists a shortage in the market for snowmobiles, then the price of a snowmobile will-----

A) rise.

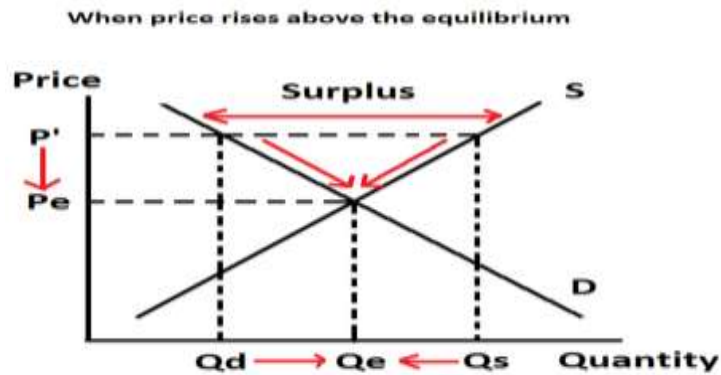
- B) fall.
- C) neither rise nor fall.
- D) at first fall then rise.

The existence of a shortage pushes the price down. False

A price below the equilibrium price results in a surplus. False

Surplus

- If there is **surplus** of a good, then the **quantity demanded is less than the quantity supplied**, and the **price will fall**.
- If the **quantity supplied exceeds the quantity demanded**, then there is a **surplus** and **the price is above the equilibrium price**.



Questions on this part:

If there is surplus of a good, then the quantity demanded _____ the quantity supplied and the price will _____.

- A) is less than; rise
- B) is less than; fall**
- C) is greater than; rise
- D) is greater than; fall

If the quantity supplied exceeds the quantity demanded, then there is a surplus and the price is above the equilibrium price. True

Change in Demand:

Effects of changes in demand and supply

Change in D	Change in S	Effect on P_e	Effect on Q_e
Increase	Fixed	↑	↑
Decrease	Fixed	↓	↓
Fixed	Increase	↓	↑
Fixed	Decrease	↑	↓

Questions on this part:

When the demand for a good decreases, its equilibrium price _____ and equilibrium quantity _____.

- A) falls; decreases**
- B) falls; increases
- C) rises; decreases
- D) rises; increases

When demand increases, the equilibrium price _____ and the equilibrium quantity _____.

A) rises; decreases

B) falls; decreases

C) rises; increases

D) falls; increases

Which of the following statements is correct?

A) When demand increases, both the price and the quantity increase.

B) When demand decreases, the price rises and the quantity decreases.

C) When supply increases, the quantity decreases and the price rises.

D) When supply decreases, both the price and the quantity decrease.

Doctors find that one aspirin per day reduces the risk of heart attacks. Demand for aspirin will increase, so that equilibrium price and equilibrium quantity will increase. True

If good A is a normal good and income increases, the equilibrium price of A rises and the equilibrium quantity of A rises True

An increase in demand combined with no change in supply raises the equilibrium price. True

If the demand for hamburgers decreases, the equilibrium price rises and the equilibrium quantity decreases. False

Change in Supply:

Questions on this part:

When supply increases. As a result, the equilibrium price will fall, and the equilibrium quantity will rise. True

When supply decreases and demand does not change, the equilibrium quantity increases and the equilibrium price falls. False