Managerial Economics
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Market Forces

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Market Equilibrium

- Equilibrium is achieved at the price at which quantities demanded and supplied are equal.
- Then corresponding price is equilibrium price or market-clearing price and the quantity is the equilibrium quantity.

- Equilibrium Price
- The price that balances quantity supplied and quantity demanded.
- On a graph, it's a price where supply and demand curves intersect.

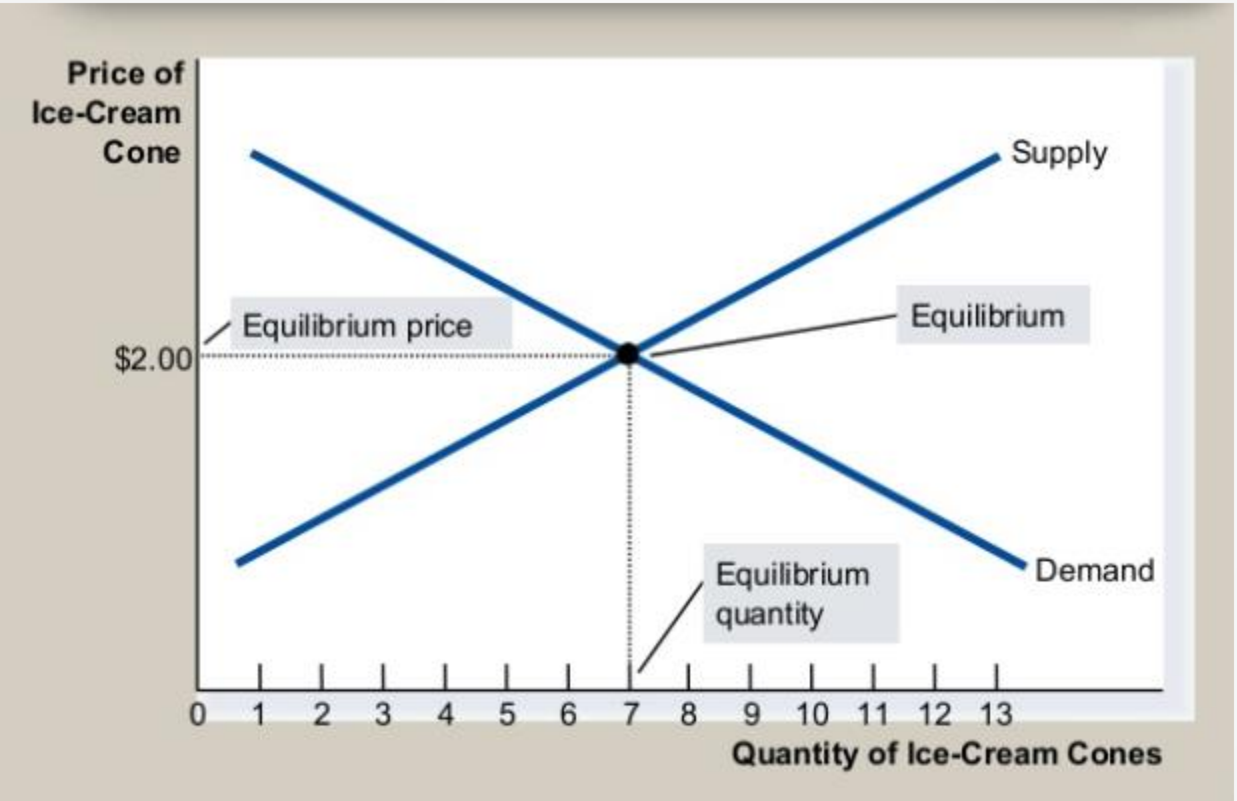
- Equilibrium Quantity
- The quantity supplied and the quantity demanded at the equilibrium price.
- On a graph, it's a quantity where supply and demand curves intersect.

Market Equilibrium

Demand Schedule	
Price	Market
$0.00	10
$1.00	8
$2.00	**7**
$3.00	4

Supply Schedule	
Price	**Market**
$0.00	0
$1.00	3
$2.00	**7**
$3.00	10

Market Equilibrium



Market Dis-Equilibrium

- Market Dis-equilibrium exists when the demand price is not equal to the supply price and the quantity demanded is not equal to the quantity supplied.
- Disequilibrium results if opposing forces are not in balance.
- The opposing forces that are out of balance are demand and supply.
- Market disequilibrium is characterized by either a surplus or a shortage. Both arise due to the inequality between quantity demanded and quantity supplied.

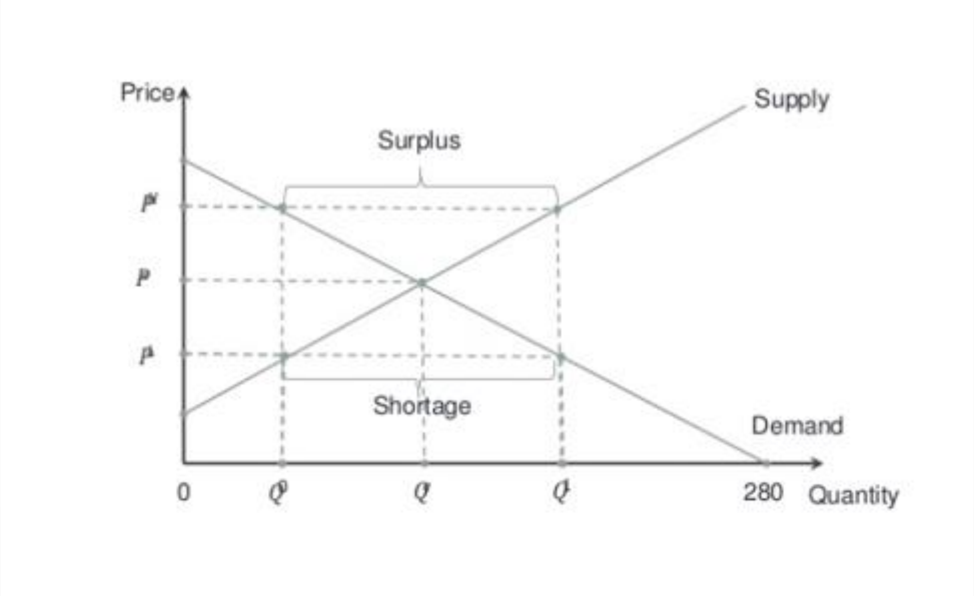
Market Dis-Equilibrium-Shortage

- Shortage:
- A shortage exists if the quantity demanded exceeds the quantity supplied at the current market price.

- This condition emerges if the market price is below the equilibrium price. With a market shortage, buyers are unable to buy as much of the good as they would like at the current price. As such, they are motivated to raise the price.

- **Shortage = Quantity demanded (Qd) > Quantity supplied (Qs)**

Market Dis-Equilibrium



Market Dis-Equilibrium-Surplus

- Surplus
- A surplus exists if the quantity supplied exceeds the quantity demanded at the current market price.
- This condition emerges if the market price is above the equilibrium price. With a market surplus, sellers are unable to sell as much of the good as they would like at the current price. As such, they are motivated to lower the price.
- **Surplus = Quantity supplied (Qs) > Quantity demanded (Qd)**

Price Restrictions

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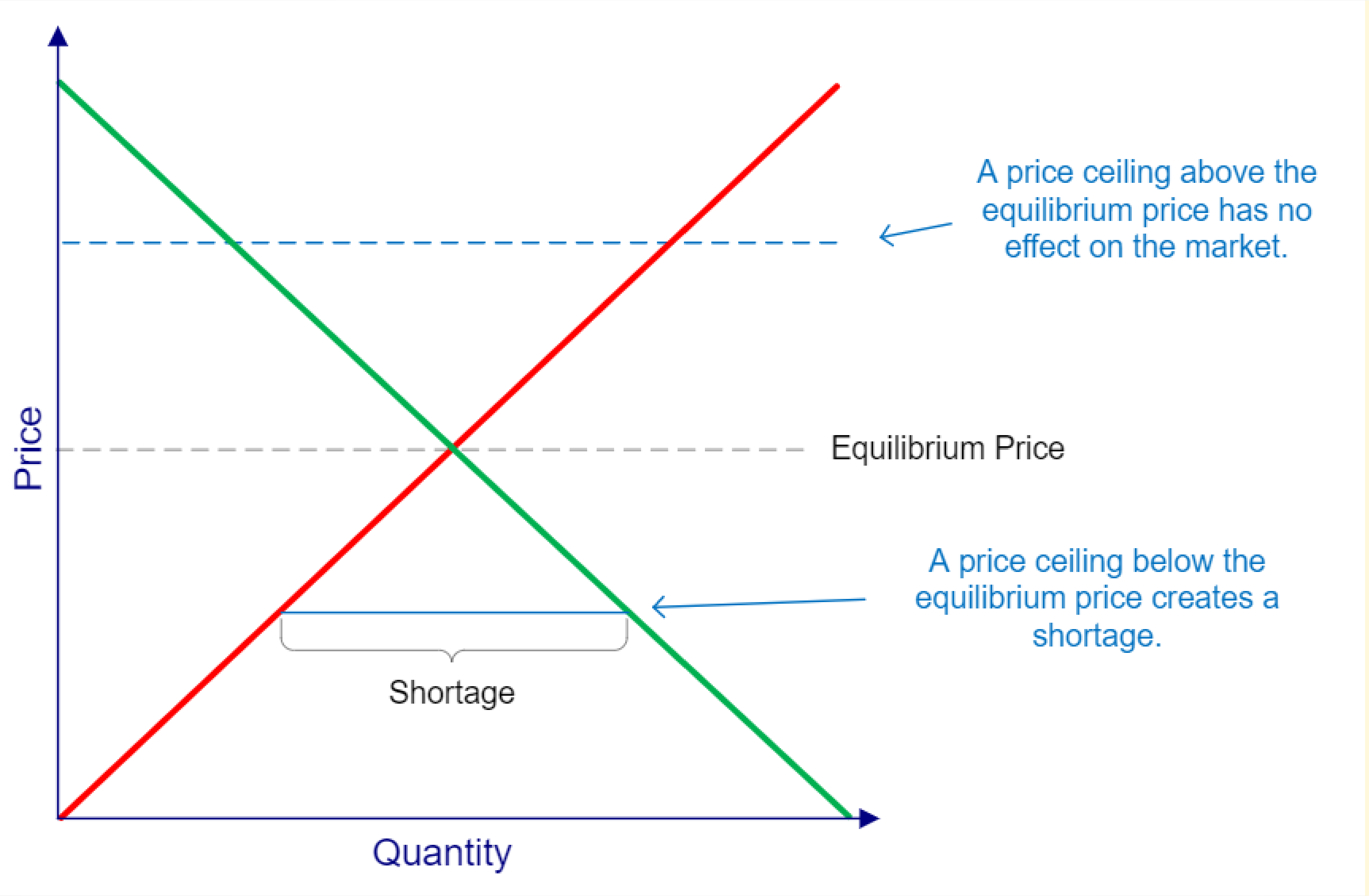
Price System

- Determines who gets a good and who does not.
- When government laws regulate prices instead of letting market forces determine prices, it is known as **price control.**
- Allocates goods to consumers who are willing and able to pay the most for the goods.
- Example
- Consider equilibrium price of Icecream is $5, consumers interested in buying the icecream will pay $5 and purchase the icecream; consumers unwilling or unable to pay that much will not buy the Icecream.

Price Ceilings

- Price Ceilings is a maximum legal price that can be charged in a market.
- It prevents price from rising above a certain level.
- When a price ceiling is set below the equilibrium price, quantity demanded will exceed quantity supplied, and excess demand or shortages will result.

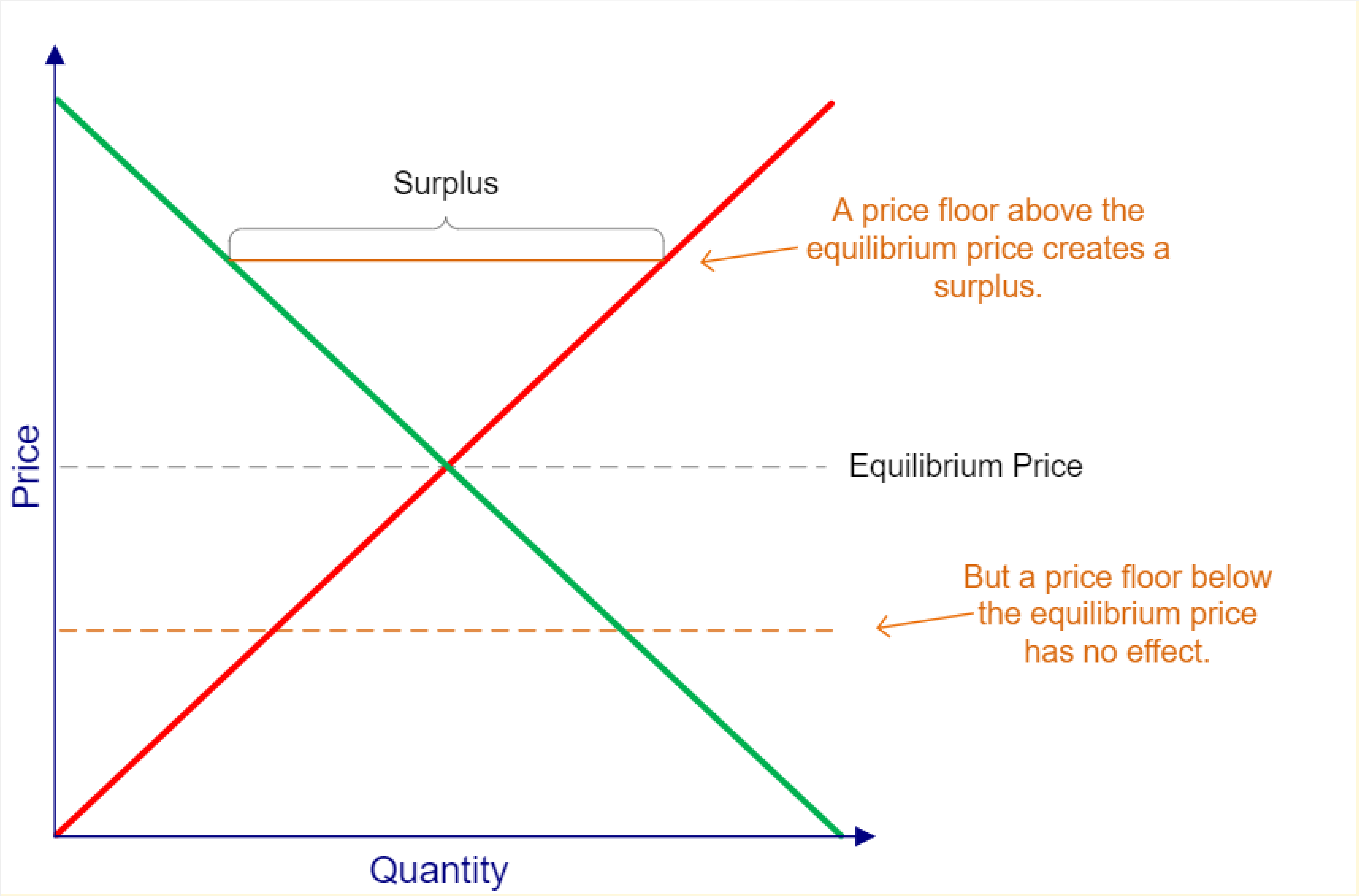
Price Ceilings



Price Floor

- The minimum legal price that can be charged in a market is called Price Floor.
- Price floor prevent a price from falling below a certain level.
- Minimum wage Laws in any country.
- Price floor is also called as Price Supporters.

Price Floor



Surplus
A price floor above the equilibrium price creates a surplus.
Equilibrium Price
But a price floor below the equilibrium price has no effect.
Price
Quantity

Comparative Static Analysis

- The study of the movement from one equilibrium to another equilibrium is called “Comparative Static Analysis”.

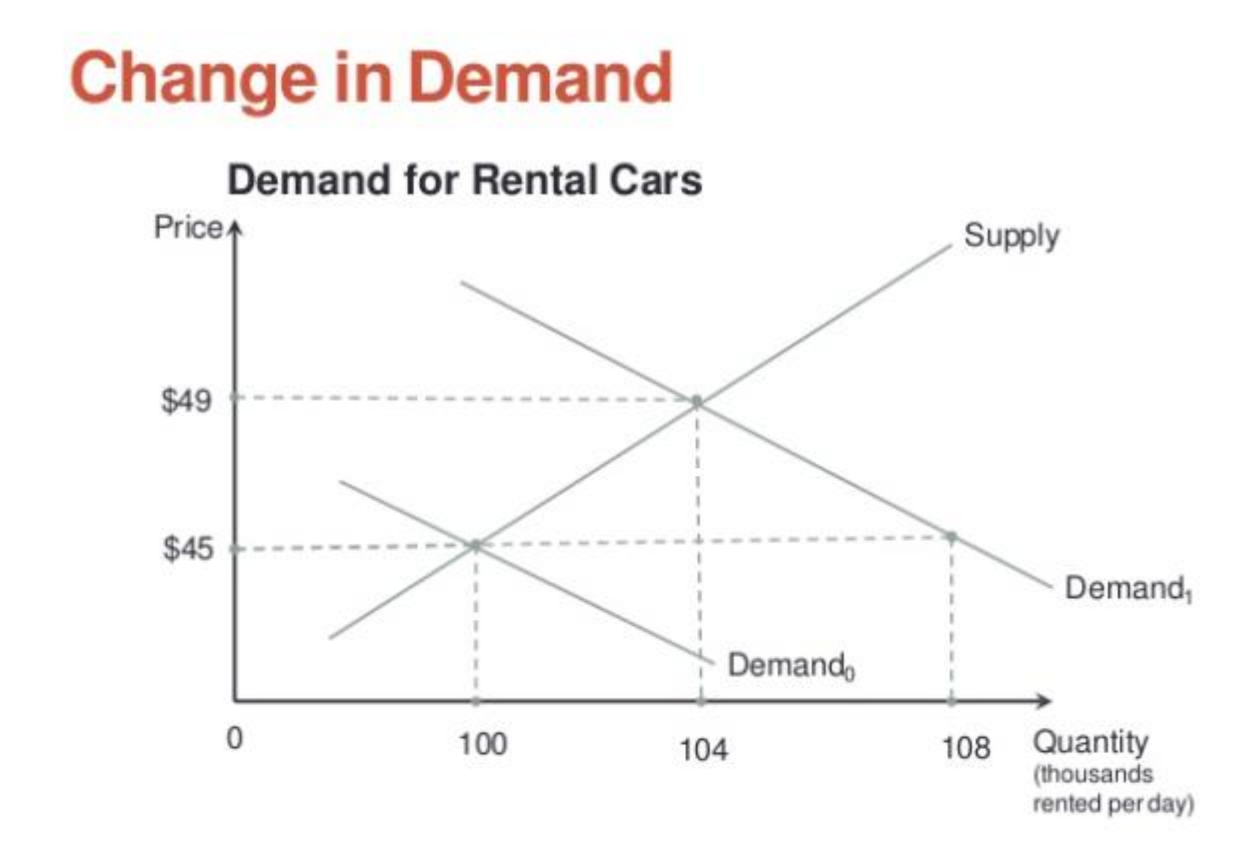
- <u>Comparative markets, no price restrictions, are analyzed when:</u>

- Changes in Demand
- Changes in Supply
- Demand and supply simultaneously change

Changes in Demand

- [Increase in Demand]()
- Increase equilibrium price and quantity

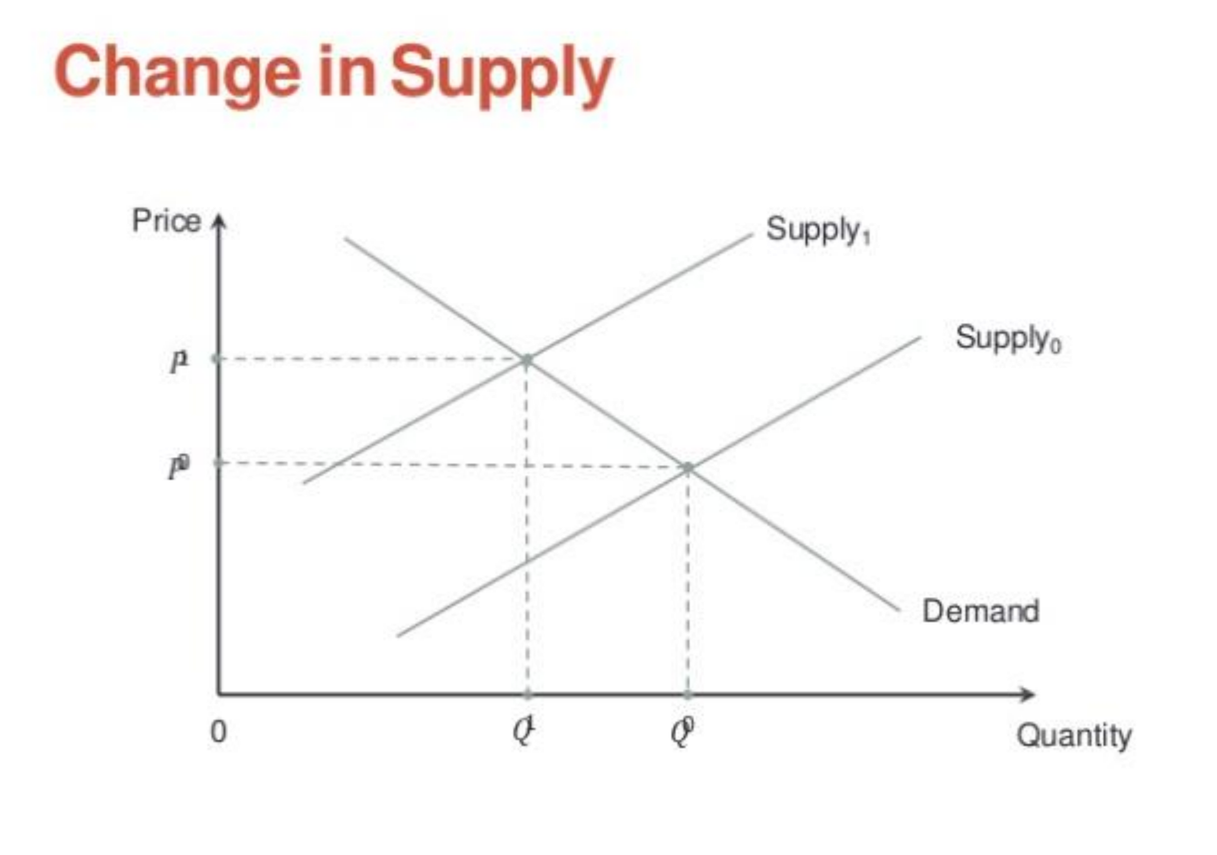
- [Decrease in Demand]()
- Decrease equilibrium price and quantity



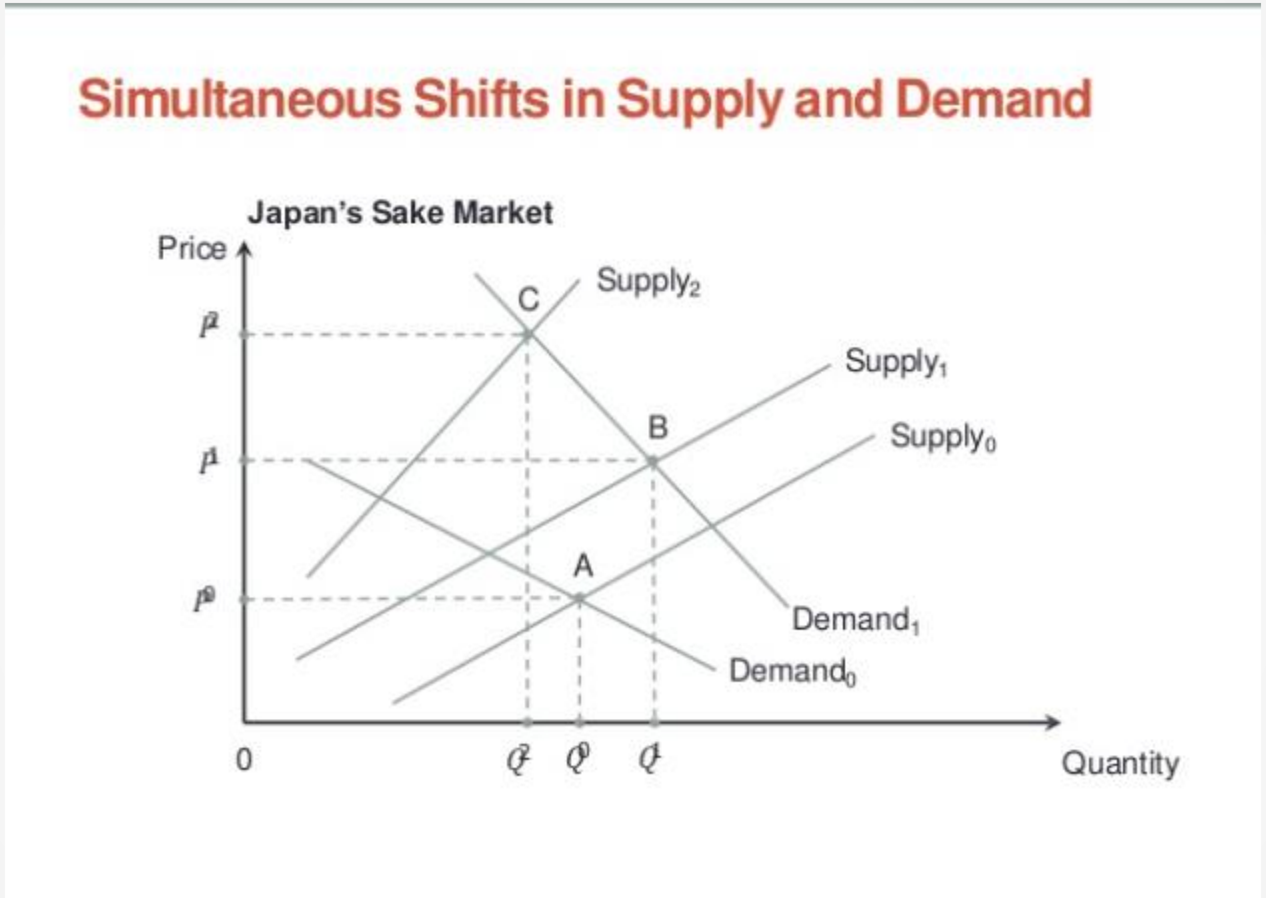
Changes in Supply

- Increase in Supply Only
- Decrease Equilibrium price and quantity

- Decrease in Supply Only
- Increase equilibrium price and quantity



Simultaneous Shifts in Supply and Demand



Home Assignment

- Does a price ceiling change the equilibrium price?
- What would be the impact of imposing a price floor below the equilibrium price?
- Why exactly does a price ceiling cause a shortage?
- Draw Graphs for Demand, Supply and Price?

Good Luck