Combining Supply and Demand

- How do supply and demand create balance in the marketplace?
- What are differences between a market in equilibrium and a market in disequilibrium?
- What are the effects of price ceilings and price floors?

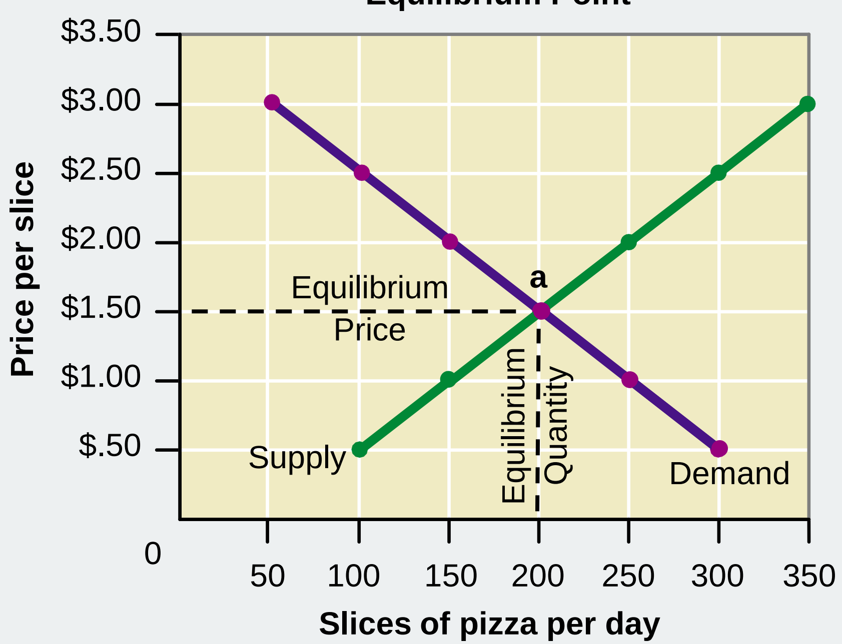
Balancing the Market

The point at which quantity demanded and quantity supplied come together is known as equilibrium.

Finding Equilibrium

•Draw the Graph in your notes

Equilibrium Point



Combined Supply and Demand Schedule

Price of a slice of pizza	Quantity demanded	Quantity supplied	Result
$ .50	300	100	Shortage from excess demand
$1.00	250	150	
$1.50	200	200	Equilibrium
$2.00	150	250	Surplus from excess supply
$2.50	100	300	
$3.00	50	350	

Market Disequilibrium

If the market price or quantity supplied is anywhere but at the equilibrium price, the market is in a state called disequilibrium. There are two causes for disequilibrium:

Excess Demand

- **Excess demand occurs when quantity demanded is more than quantity supplied.**

Excess Supply

- **Excess supply occurs when quantity supplied exceeds quantity demanded.**

Interactions between buyers and sellers will always push the market back towards equilibrium.

Price Ceilings

In some cases the government steps in to control prices. These interventions appear as price ceilings and price floors.

- **A <u>price ceiling</u> <u>is a maximum price that can be legally charged for a good</u>.**
- **An <u>example</u> of a price ceiling is <u>rent control</u>, a situation where a <u>gov</u>ernment <u>sets</u> a <u>max</u>imum <u>amount</u> that can be <u>charged</u> for rent in an area.**

Price Floors

- A price floor is a minimum price, set by the government, that must be paid for a good or service.
- One well-known price floor is the minimum wage, which sets a minimum price that an employer can pay a worker for an hour of labor.

Section 1 Assessment

1. Equilibrium in a market means which of the following?

   (a) the point at which quantity supplied and quantity demanded are the same

   (b) the point at which unsold goods begin to pile up

   (c) the point at which suppliers begin to reduce prices

   (d) the point at which prices fall below the cost of production

2. The government's price floor on low wages is called the

   (a) market equilibrium

   (b) base wage rate

   (c) minimum wage

   (d) employment guarantee

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