

Course– MACROECONOMICS

Lecture 12: MARKET EQUILLIBRIUM

August, 2015



TOPICS TO BE DISCUSSED

1. Video on Interaction of Demand and Supply

2. Market Equilibrium:

- Interaction of Demand and Supply
- Shift in Demand Curve- Effect on Market Equilibrium
- Shift in Supply Curve- Effect on Market Equilibrium

MARKET EQUILIBRIUM

- Market equilibrium is the condition that exists when quantity supplied and quantity demanded are equal
- Where the quantity that consumers want to buy equals the quantity suppliers want to sell or offer at a particular price
- Price is determined by the intersection of demand and supply
- At equilibrium, there is no tendency for the market price to change

➤ Operation of the market depends on the interaction between demand and supply, leading to market equilibrium.

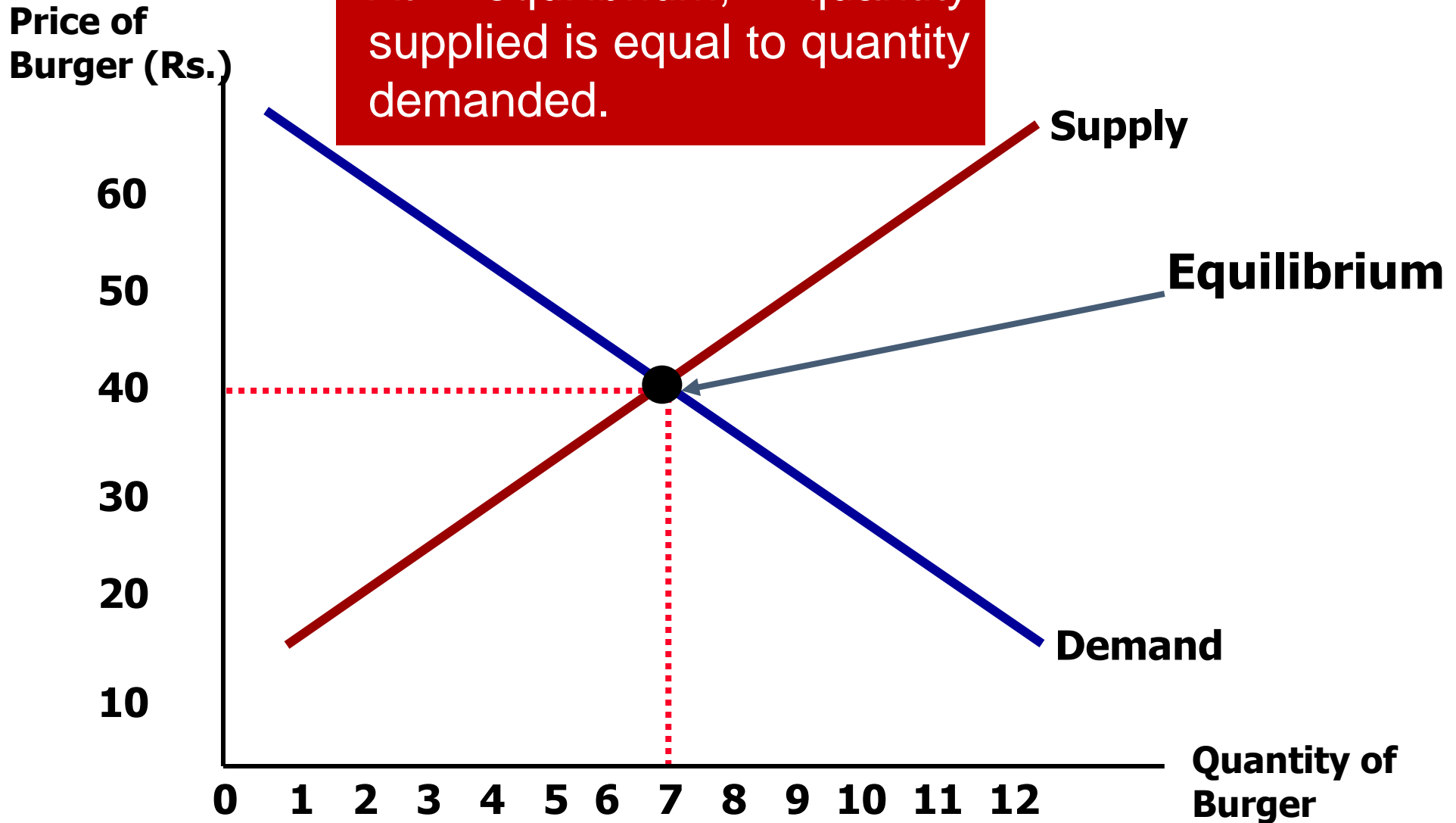
➤ Where wishes of consumers and producers coincide

SUPPLY AND DEMAND FOR BURGER

Price (Rs)	Quantity Demanded	Quantity Supplied
7	0	600
6	100	500
5	200	400
4	300	300
3	400	200
2	500	100
1	600	0
0	700	0

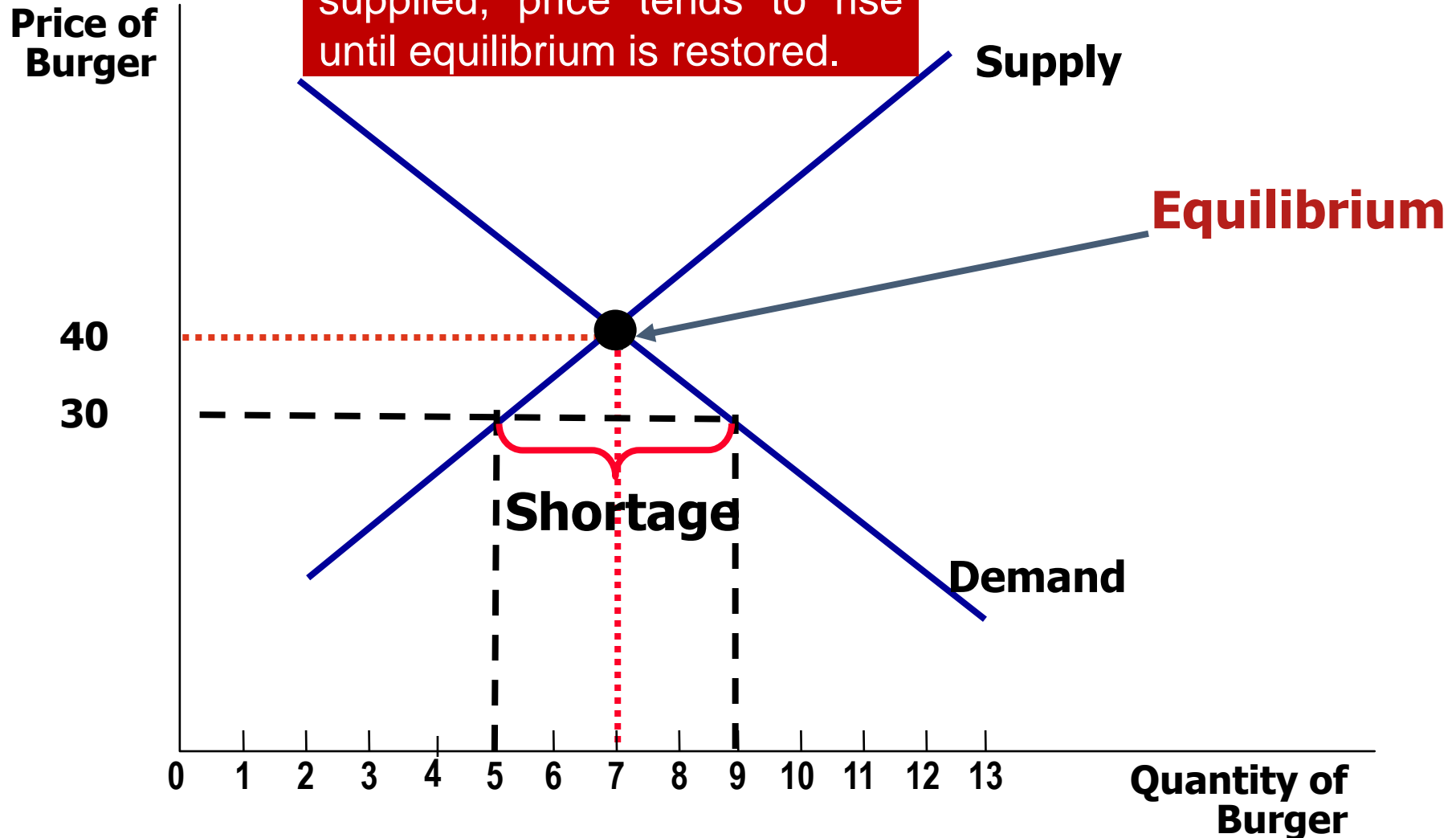
MARKET EQUILIBRIUM

At equilibrium, quantity supplied is equal to quantity demanded.



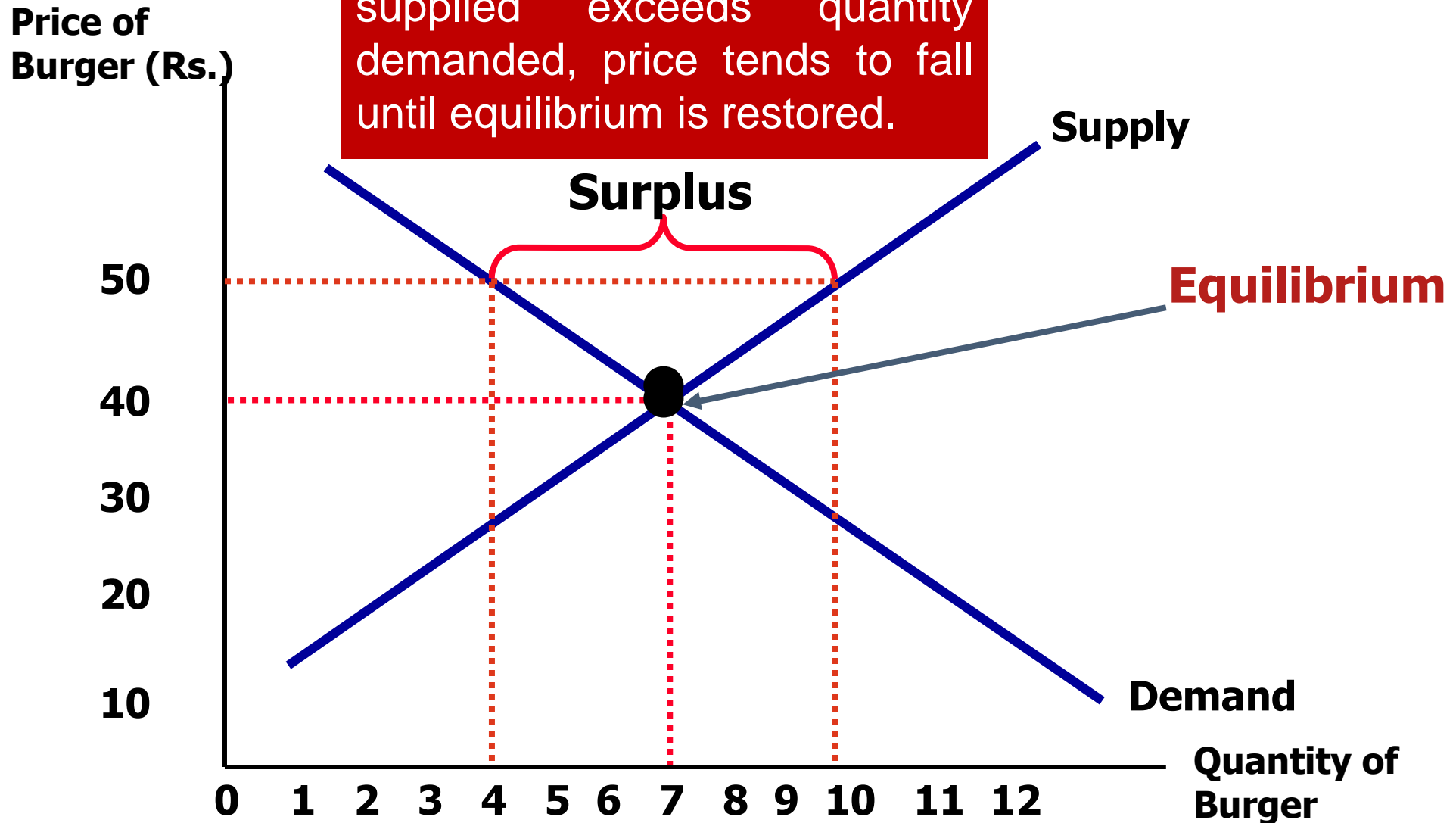
EXCESS DEMAND

Shortage: When quantity demanded exceeds quantity supplied, price tends to rise until equilibrium is restored.



EXCESS SUPPLY

Surplus: When quantity supplied exceeds quantity demanded, price tends to fall until equilibrium is restored.



CHANGE IN DEMAND & EQUILIBRIUM

Price of
Burger (Rs.)

50

40



0

7

10

Quantity of
Burger

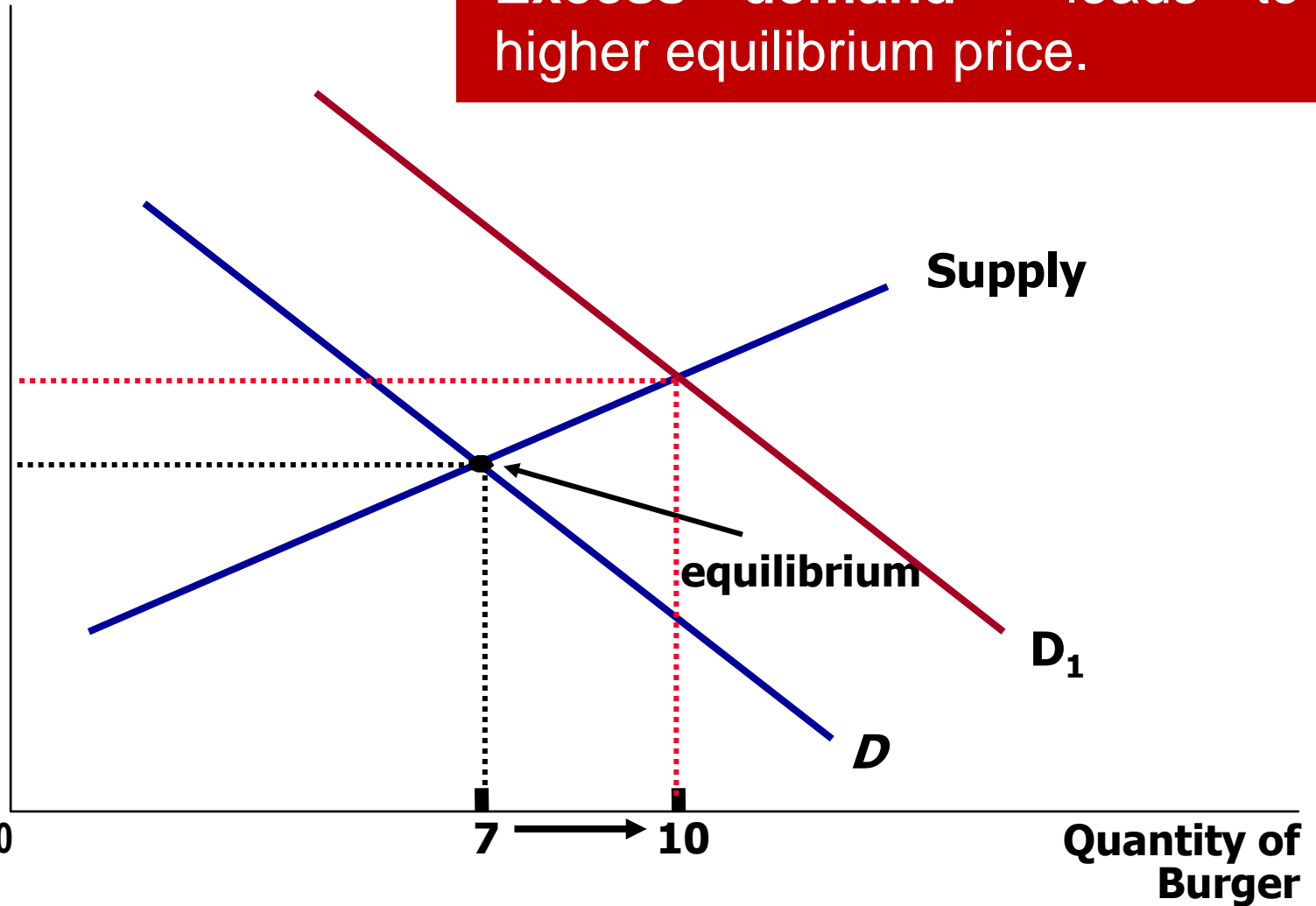
Excess demand leads to higher equilibrium price.

Supply

equilibrium

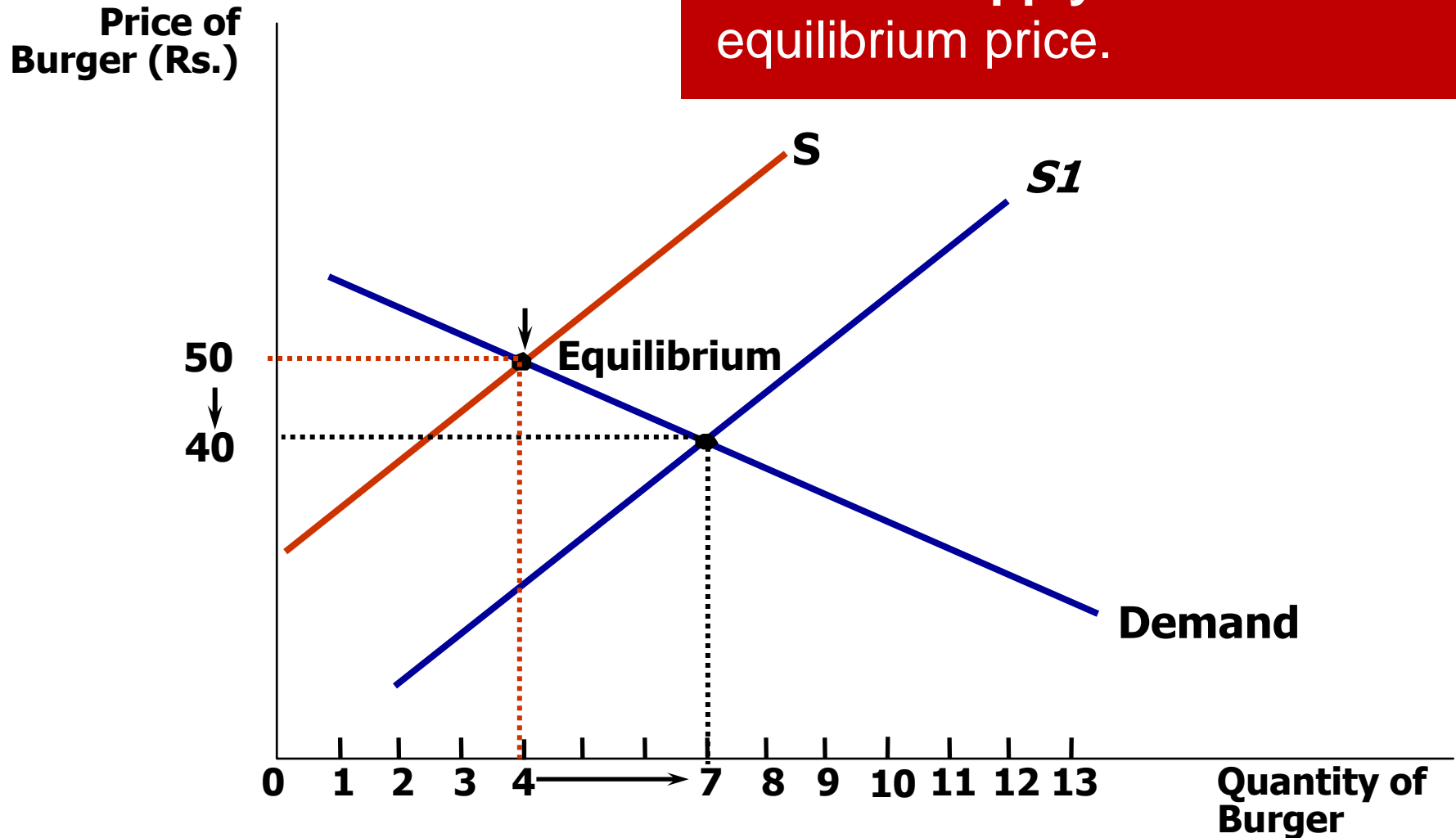
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CHANGE IN SUPPLY AND EQUILIBRIUM

Excess Supply leads to lower equilibrium price.



SUPPLY AND DEMAND ANALYSIS- CONCLUSION

- Supply and demand analysis provides an insight into the impact of events in a specific market
- Whether an event will tend to cause the price of a good to increase or decrease
- Insight of such impact is of utmost importance to the business decision makers

• **Example-** Excess demand will cause a rise in price, excess supply will cause fall in price

INTERACTION OF DEMAND & SUPPLY

- [VIDEOS\Supply and Demand \(clip\).flv](#)

THANK YOU 😊