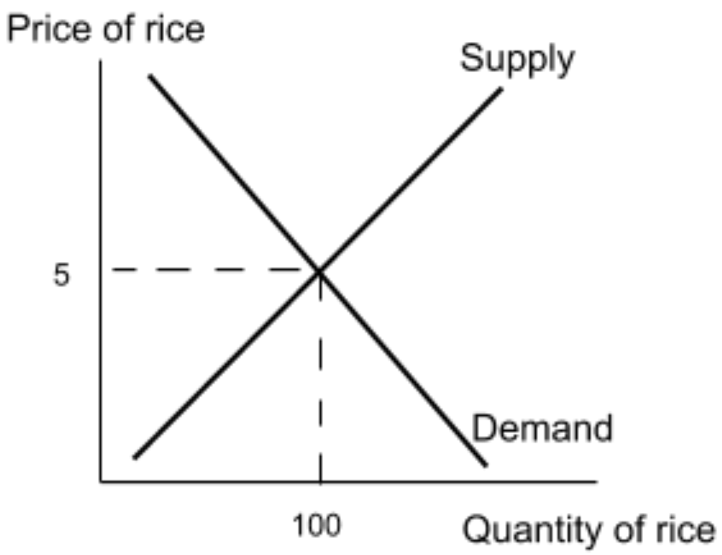
Determination of market equilibrium

a) Equilibrium price and quantity, and how they are determined.

Equilibrium price : the price where demand and supply are equal.



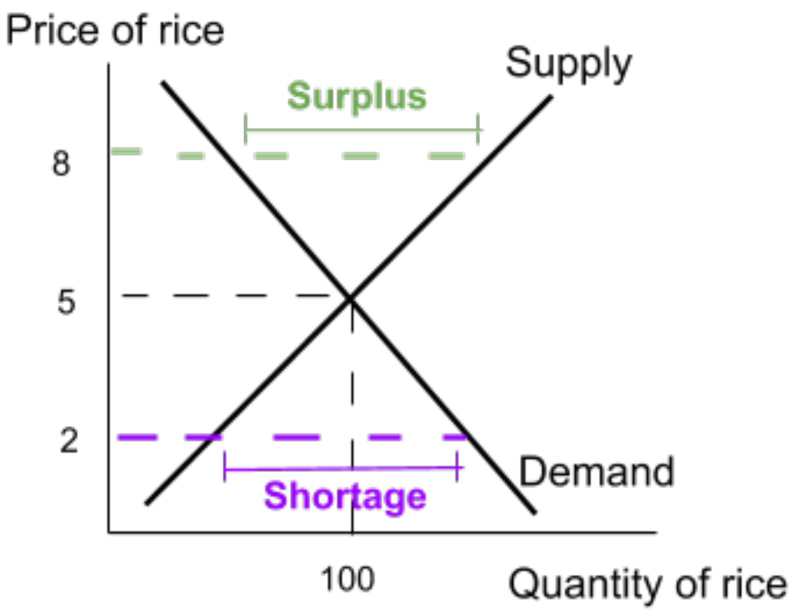
- At market equilibrium : Demand = Supply at price ฿5 per unit

Disequilibrium : where demand ≠ supply

↳ Shortage or excess demand

↳ Surplus or excess supply

Moving from market disequilibrium to market Equilibrium



- **Disequilibrium** : where demand ≠ Supply

1) At price = 8, there is excess supply : supply > demand

- Price↓ causing contraction in supply and extension in demand
- Price falls until it reaches the equilibrium.

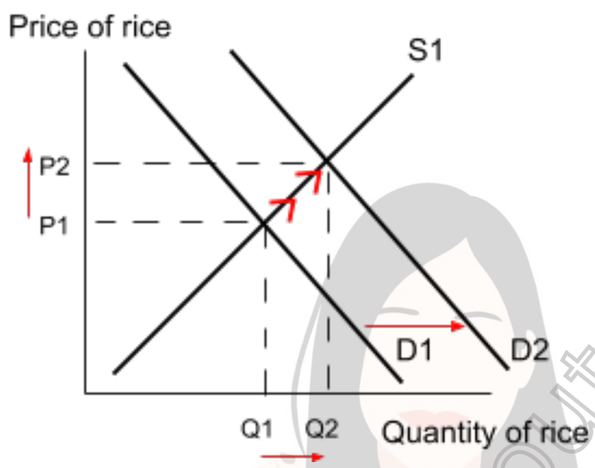
2) At price = 2, there is excess demand : demand > supply

- Price↑ causing contraction in demand and extension in supply
- Price rises until it reaches the equilibrium.

b) Causes of changes in the equilibrium price and quantity as a result of shifts in demand and supply curves.

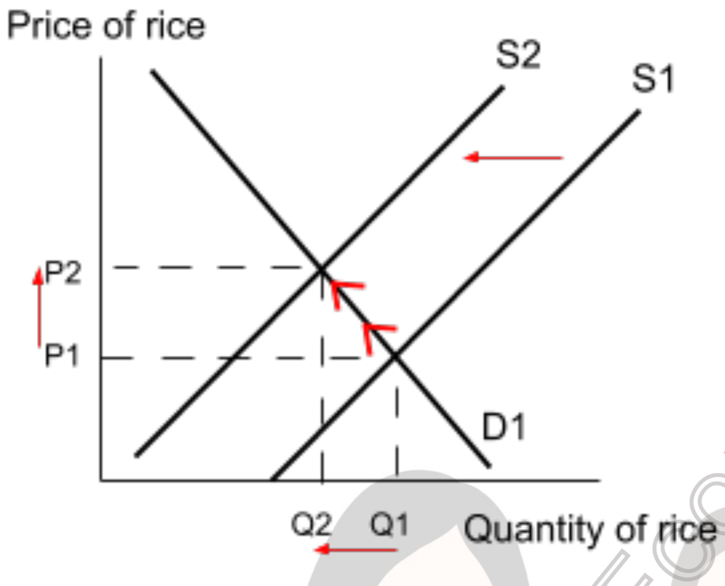
1. The effect of changes in demand curve

Case 1 : Consumers have higher income.



1. Original equilibrium is at P1 and Q1.
2. Consumers have higher income and they have more ability to spend. Demand for rice increases and the demand curve shifts to the right.
3. New equilibrium, price and quantity increase to P2 and Q2.

<u>Case 2</u> : Producers have higher cost of production.



1. Original equilibrium is at P1 and Q1.
2. Producers face higher cost of production and they gain lower profit. Supply of rice decreases and the supply curve shifts to the left.
3. New equilibrium, price increases to P2 and quantity decreases to Q2.