

# AQA Economics AS-level **Microeconomics**



## Topic 2: Price Determination in a Competitive Market

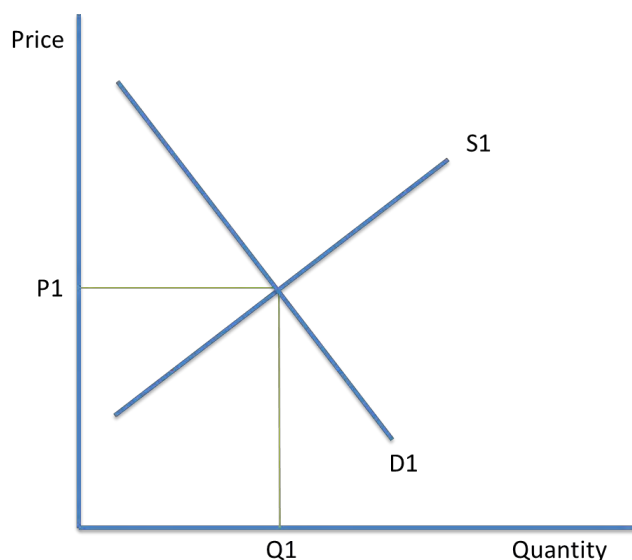
### **2.5 The determination of equilibrium market prices**

Notes

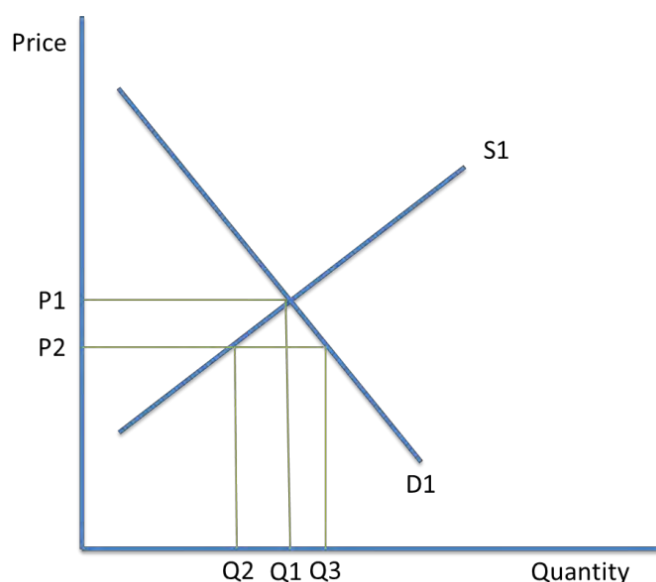



## Equilibrium price and quantity

-  This is when supply meets demand. On the diagram, this is shown by P1 and Q1.
-  At market equilibrium, price has no tendency to change, and it is known as the **market clearing price**.





## Excess demand




-  At Q2, price is at P2 which is below market equilibrium. Demand is now greater than supply, which can be calculated by Q3-Q2. This is a state of **disequilibrium**. The

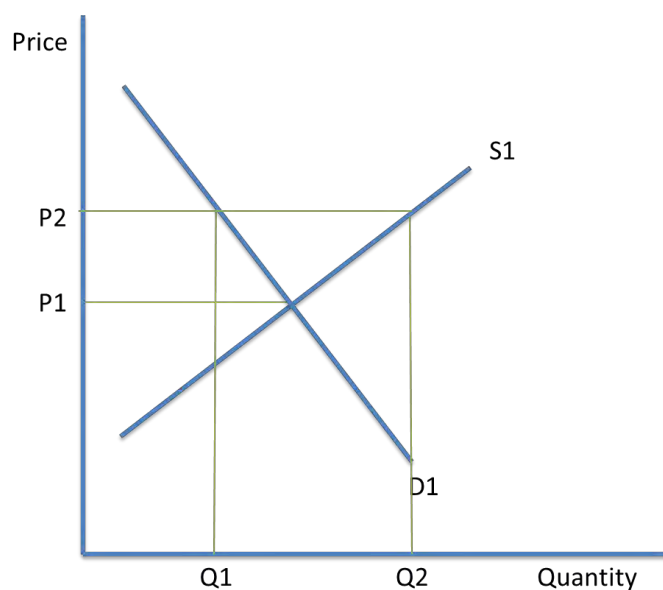



demand price does not equal the supply price, and the quantity demanded does not equal the quantity supplied.

-  This is a **shortage** in the market. This pushes prices up and causes firms to supply more. Since prices increase, demand will contract.
-  Once supply meets demand again, price will reach the market clearing price,  $P_1$ .

### **Excess supply**


-  This is when price is above  $P_1$ .

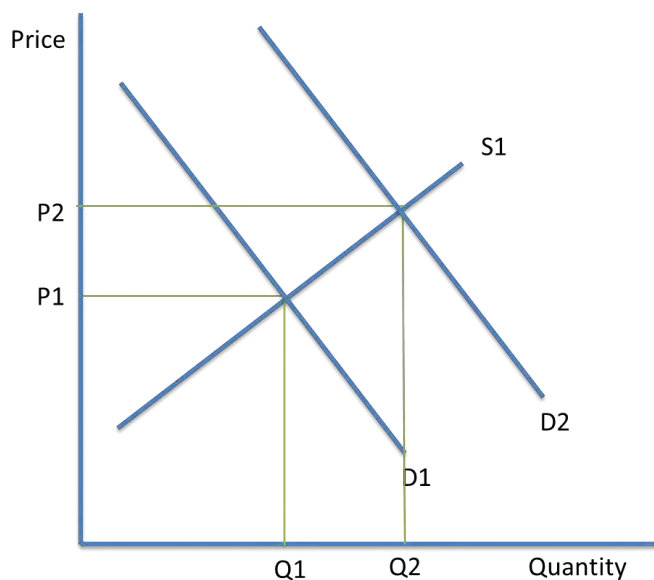




-  Supply is now at  $Q_2$  and demand is at  $Q_1$ . There is a **surplus** of  $Q_2 - Q_1$ . Price will fall back to  $P_1$  as firms lower their prices and try to sell their goods. The market will clear and return to equilibrium.



## New market equilibriums

-  When the demand or supply curves shift due to the PIRATES or PINTSWC reasons, new market equilibriums are established.



-  For example, if there was an increase in the size of the population, demand would shift from D1 to D2.
-  Price would increase to P2 and suppliers would supply a larger quantity of Q2. A new market equilibrium is established at P2 Q2.

