

# 2.7- SUPPLY AND DEMAND: EQUILIBRIUM

**2.7- Explain how equilibrium prices and quantities are affected by changes in supply and demand.**

**By: Carter Greene**

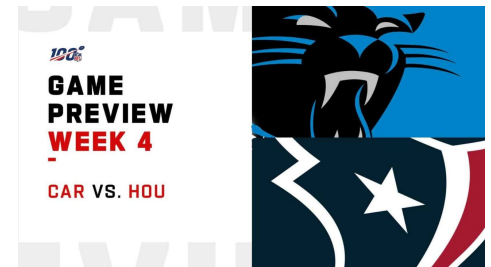
# KICKOFF:

- ❖ Grab a handout on the way in
- ❖ Go to Google Classroom and complete the Edpuzzle assignment.
  - Use headphones or closed captioning
- ❖ Then at the end of the video, use the scenarios given to complete the handout you picked up on the way in
- ❖ **Roll Call:** Worst gift you've ever gotten

# ANNOUNCEMENTS:



- ❖ **10/1-** Have module 8 read
  - Price ceilings and price floors
- ❖ Homeroom next week
- ❖ Carolina will beat Clemson this weekend
- ❖ Panthers play Texans



FIND THE PERSON  
WHO HAS THE SAME  
GOOD AS YOU

# SUPPLY AND DEMAND PRACTICE

- ❖ Working with the person who drew the same good/service as you.
- ❖ Some shifts will be for supply and some will be for demand.
- ❖ Correctly draw and label each part of your graph.
- ❖ Notice the last couple may be harder.

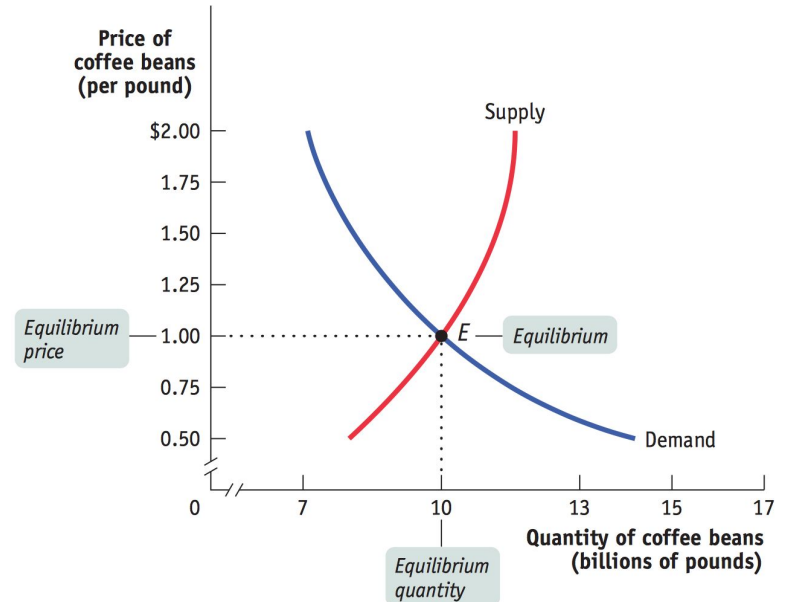
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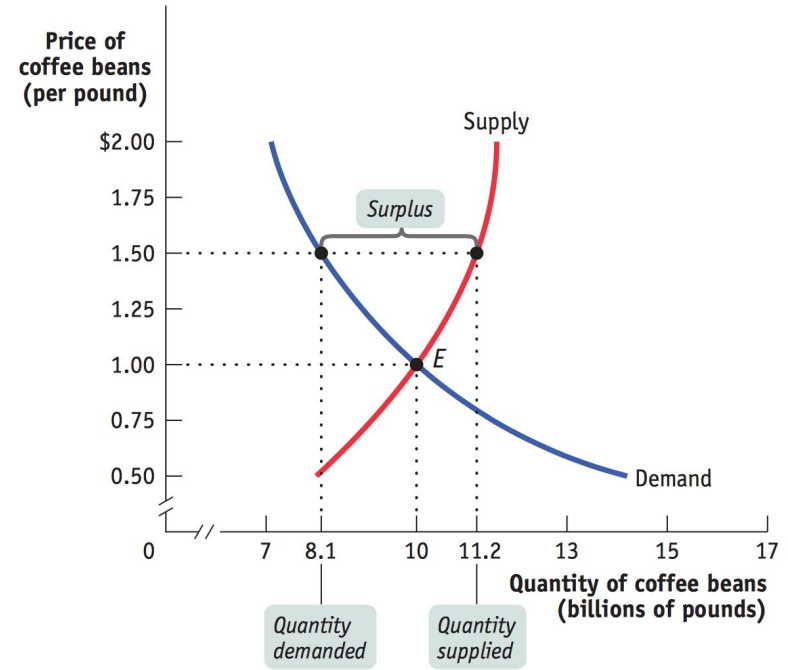
# EQUILIBRIUM

- ❖ A price in which no individual buyer or seller could make themselves better off
- ❖ Quantity supplied = Quantity demanded → Equilibrium price
  - $Q_s = Q_d$
  - Demand:  $p = 2q + 4$
  - Supply:  $p = -4q + 8$
  - $2q + 4 = -4q + 8$
  - $Eq = .66$  or  $2/3$
  - $Ep = 16/3$  or  $5.33$
  - Market clearing price



# DISEQUILIBRIUM - I'M NOT GOING TO INSULT YOUR INTELLIGENCE BY DEFINING THIS

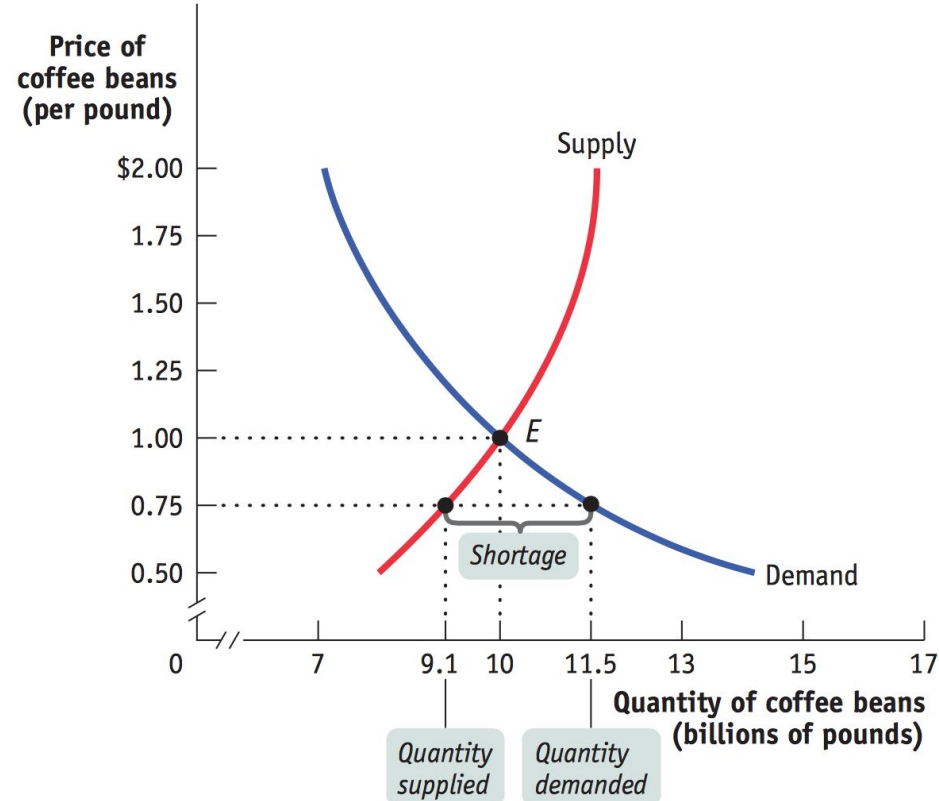
- ❖ Surplus- quantity supplied exceeds quantity demanded because price is too high
  - Price is above equilibrium
  - Often occurs in the short run
  - Need price to fall





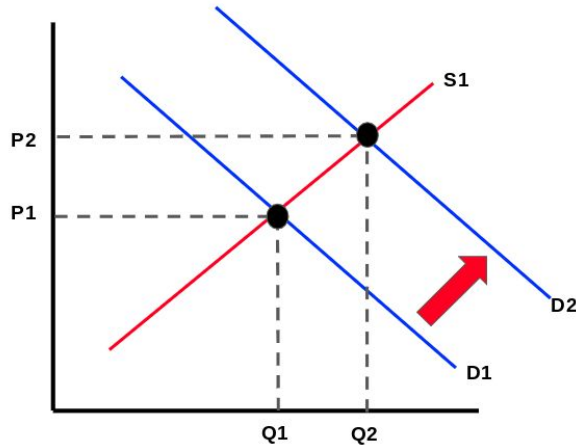
# DISEQUILIBRIUM - I'M NOT GOING TO INSULT YOUR INTELLIGENCE BY DEFINING THIS

- ❖ Shortage- price is too low therefore quantity demanded exceeds quantity supplied
  - Price is below equilibrium
  - Often occurs in the short run
  - Need price to rise



# WHEN DEMAND INCREASES:

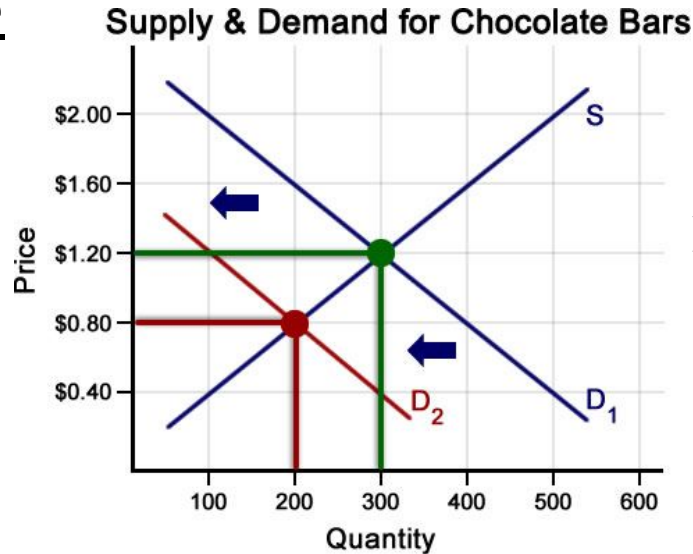
- ❖ Curve shifts right
- ❖ Equilibrium price and quantity increases



- ❖ Prices are sticky
  - Do not change immediately
- ❖ So if prices are still at P1 in the short run, what's occurring?
  - SHORTAGE
- ❖ In to reach our new equilibrium we need:
  - A movement along the supply curve

# WHEN DEMAND DECREASES:

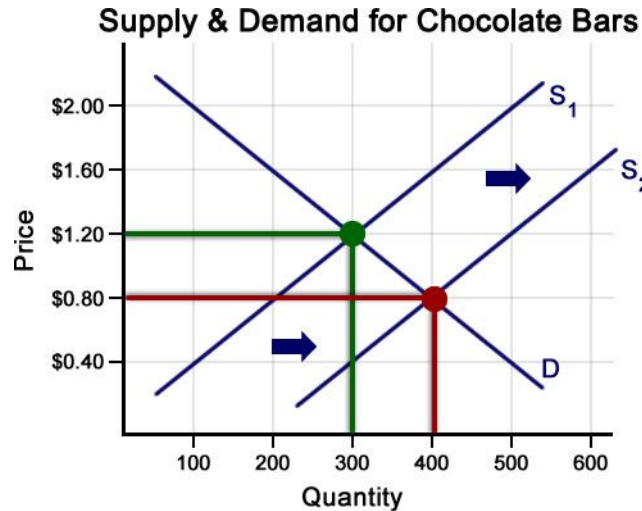
- ❖ Curve shifts left
- ❖ Equilibrium price and quantity decrease



- ❖ At P1 what is occurring?
  - SURPLUS
- ❖ In order to reach our new equilibrium we need:
  - A movement along the supply curve

# WHEN SUPPLY INCREASES:

- ❖ Curve shifts right
- ❖ Equilibrium price decreases,  
quantity increases



- ❖ At P<sub>1</sub> what is occurring?
  - SURPLUS
- ❖ In order to reach our new equilibrium we need?
  - A movement along the demand curve

# WHEN SUPPLY DECREASES:

- ❖ Curve shifts left
- ❖ Equilibrium price increases, quantity decreases

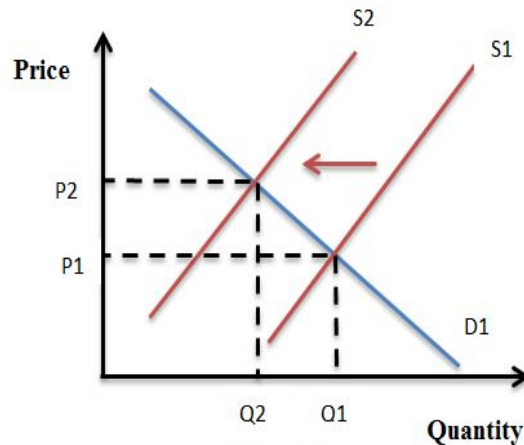


Diagram 1

- ❖ At P1 what is occurring?
  - SHORTAGE
- ❖ In order to reach our new equilibrium we need:
  - A movement along the demand curve

# DOUBLE-SHIFTS

- ❖ Sometimes double shifts of the supply and demand curve can happen simultaneously



# SUPPLY AND DEMAND SHIFTS IN DIFFERENT DIRECTIONS

- ❖ Demand increases and supply decreases
  - Demand shifts right, Supply shifts left
  - Price: increase
  - Quantity: indeterminate
- ❖ Demand decrease and supply increases
  - Demand shifts left, Supply shifts right
  - Price: decrease
  - Quantity: indeterminate

# WHEN SUPPLY AND DEMAND SHIFT IN THE SAME DIRECTION

- ❖ Supply and demand increase
  - Demand and supply shift right
  - Quantity: increase
  - Price: indeterminant
- ❖ Supply and demand decrease
  - Demand and supply shift left
  - Quantity: decreases
  - Price: indeterminant



# THE DOUBLE SHIFT RULE

<u>Change in Demand</u>	<u>Change in Supply</u>	<u>Effect on Equilibrium Price</u>	<u>Effect on Equilibrium Quantity</u>
Increase	Increase	Indeterminate	Increase
Decrease	Decrease	Indeterminate	Decrease
Increase	Decrease	Increase	Indeterminate
Decrease	Increase	Decrease	Indeterminate

# CREATE YOUR OWN SUPPLY AND DEMAND SHIFT SCENARIOS

- ❖ At the top, right your name and the product you were assigned
- ❖ You will come up with a scenario for your product given each determinant of supply and demand
- ❖ As you complete the scenarios, complete the entire column pertaining to the effects of the scenario/shocks
- ❖ You may work with your partner but this does not mean divide and conquer
- ❖ Give detailed scenarios → entertain me when possible

# CLOSURE

- ❖ Go to Google Classroom and complete the assignment “9/26- Closure”
  - Describe two scenarios that may cause a shortage in jelly beans.
  - Describe two scenarios that may cause a surplus in paper towels.