January 2017

02 Monday

6/4/2020

January
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8 9 10 11 12 13 14
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February
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January 2017

Tuesday 03

Hello dearies,

As we all know, social distancing is the only weapon found so far to combat the spread of the pandemic Covid 19, promotion & practice of online lecture series is a must for every educational institution. The Economics Department of Panchmura Mahavidyalaya is not an exception in this regard. In my last class, I have discussions about market demand & mkt supply mechanisms have been made. Today we aim at discussing concerning the question — when is a market in equilibrium?

A market is in equilibrium when no buyer or seller has any incentive to change the quantity of the commodity that he or she buys or sells at the given price. In other words, equilibrium price of a commodity is the price at which the quantity demanded of the commodity equals quantity supplied & the market clears.

For a better understanding, let's take a quick look at the figure.
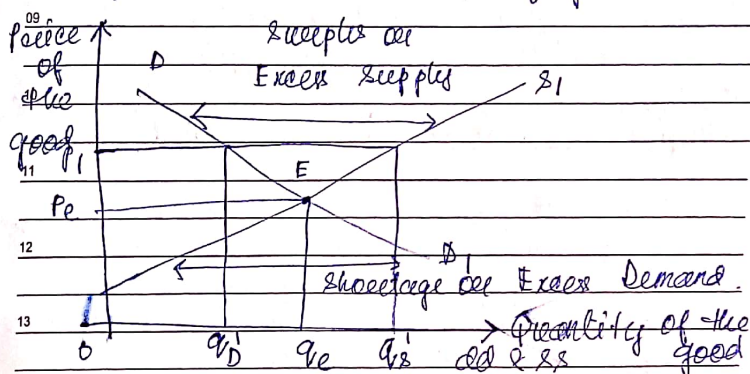
We measure Qt on horizontal axis & price on the vertical axis. The mkt attains Equilibrium is obtained at E where dd curve DD, intersects supply curve SS₁. OPe is the equil price & OQe is the equilib qt.

It may happen that the actual price of the good may not be the equil price. Suppose at any price level higher then Pe (say P₁), we find there is excess supply of the commodity. At OP_1, Demand = Oq_D' Supply = Oq_S'. Clearly, $Oq_S' > Oq_D' \Rightarrow$ Excess supply

An investment in knowledge pays the best interest. - Benjamin Franklin

A man always has two reasons for doing anything: a good reason and the real reason. J. P. Morgan

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January 2017

04 wednesday

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At this juncture, the suppliers have to lower the price so as to sell their excess supplies (since they don't have the motivation to hoard). The suppliers will continue declining the price unless the surplus boils down to zero. (whichever $= P_e$)

Similarly, at the price lower than P_e there is excess demand of the good than supply. $\therefore$ Price shoots up as is been observed now in this lockdown. Finally, the price rests at P_e.

Lunch

Thus, in the absence of any other govt. price controls, market price is the equilibrium price. (the invisible hand mechanism).

BComH 203 GE-2 Principle of GE-2

Micro Economics

modity is the price at which the quantity demanded of the commodity equals the quantity supplied and the market clears. The process by which equilibrium is reached in the market-place can be shown with a table and illustrated graphically.

Table 2.3 brings together the market demand and supply schedules for hamburgers from Tables 2.1 and 2.2. From Table 2.3, we see that only at $P = \$1.00$ is the quantity supplied of hamburgers equal to the quantity demanded and the market clears. Thus, $P = \$1.00$ is the equilibrium price and $Q = 6$ million hamburgers per day is the equilibrium quantity.

At prices above the equilibrium price, the quantity supplied exceeds the quantity demanded and there is a **surplus** of the commodity, which drives the price down. For example, at $P = \$2.00$, the quantity supplied (QS) is 14 million hamburgers, the quantity

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[3] An algebraic analysis of how equilibrium is determined for this case is given in the appendix to this chapter. A more general analysis is provided in section A1.11 of the Mathematical Appendix at the end of the book.

TABLE 2.3	Market Supply Schedule, Market Demand Schedule, and Equilibrium			
Price Per Hamburger	Quantity Supplied Per Day (Million Hamburgers)	Quantity Demanded Per Day (Million Hamburgers)	Surplus (+) or Shortage (−)	Pressure on Price
$2.00	14	2	12	Downward
1.50	10	4	6	Downward
1.00	6	6	0	Equilibrium
0.75	4	7	−3	Upward
0.50	2	8	−6	Upward

demanded (QD) is 2 million hamburgers, so there is a surplus of 12 million hamburgers per day (see the first line of Table 2.3). Sellers must reduce prices to get rid of their unwanted inventory accumulations of hamburgers. At lower prices, producers supply smaller quantities and consumers demand larger quantities until the equilibrium price of $1.00 is reached, at which the quantity supplied of 6 million hamburgers per day equals the quantity demanded and the market clears.

On the other hand, at prices below the equilibrium price, the quantity supplied falls short of the quantity demanded and there is a **shortage** of the commodity, which drives the price up. For example, at $P = \$0.50$, $QS = 2$ million hamburgers while $QD = 8$ million hamburgers, so that there is a shortage of 6 million hamburgers per day (see the last line of Table 2.3). The price of hamburgers is then bid up by consumers who want more hamburgers than are available at the low price of $0.50. As the price of hamburgers is bid up, producers supply greater quantities while consumers demand smaller quantities until the equilibrium price of $P = \$1.00$ is reached, at which $QS = QD = 6$ million hamburgers per day and the market clears. Thus, bidding drives price and quantity to their equilibrium level.
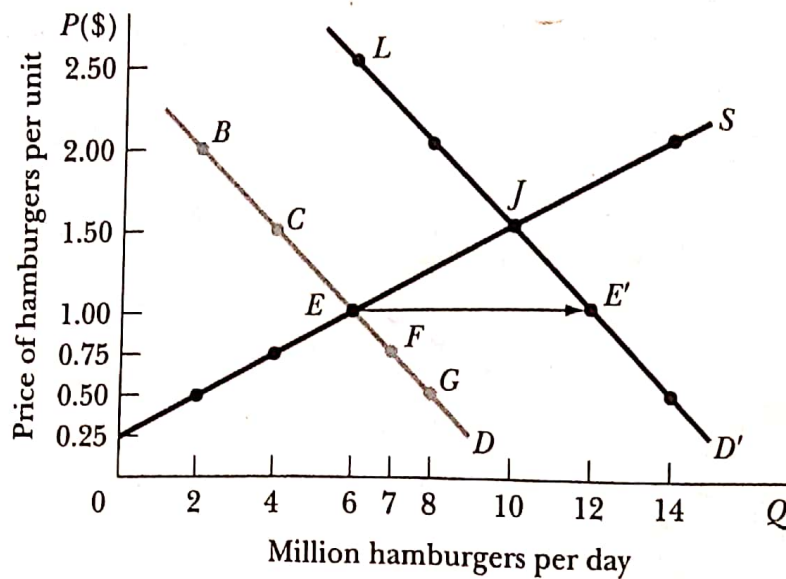
FIGURE 2.6   Adjustment to an Increase in Demand   *D* and *S* are the original demand and supply curves (as in Figure 2.5). The shift from *D* to *D′* results in a temporary shortage of hamburgers, which drives the price up to $P = \$1.50$ at which $QS = QD = 10$ million hamburgers.

Adjustment to Changes in Demand

We have seen that the market demand curve for a commodity shifts as a result of a change in consumers' income, their tastes, the price of substitutes and complements, and the number of consumers in the market (i.e., a change in the *ceteris paribus* assumption). Given the market supply curve of a commodity, an increase in demand (a rightward shift of the entire demand curve) results both in a higher equilibrium price and a higher equilibrium quantity. A reduction in demand has the opposite effect.

Figure 2.6 shows a shift from *D* to *D′* resulting, for example, from an increase in consumers' income. The shift results in a temporary shortage of 6 million hamburgers (*EE′* in the figure) at the original equilibrium price of $P = \$1.00$ (point *E*). As a result, the price of hamburgers is bid up to $P = \$1.50$ at which $QS = QD = 10$ million hamburgers. As the price of hamburgers rises to $P = \$1.50$, the quantity demanded declines (from point *E′* to point *J* along *D′*) while the quantity supplied increases (from point *E* to point *J* along *S*) until the new equilibrium point *J* is reached. At the new equilibrium point *J*, both *P* and *Q* are higher than at the old equilibrium point *E* and the market, once again, clears.

Adjustment to Changes in Supply

The market supply curve of a commodity can shift as a result of a change in technology, resource prices, or weather conditions (for agricultural commodities). Given the market demand curve for the commodity, an increase in supply (a rightward shift of the entire supply curve) results in a lower equilibrium price but a larger equilibrium quantity. A reduction in supply has the opposite effect.
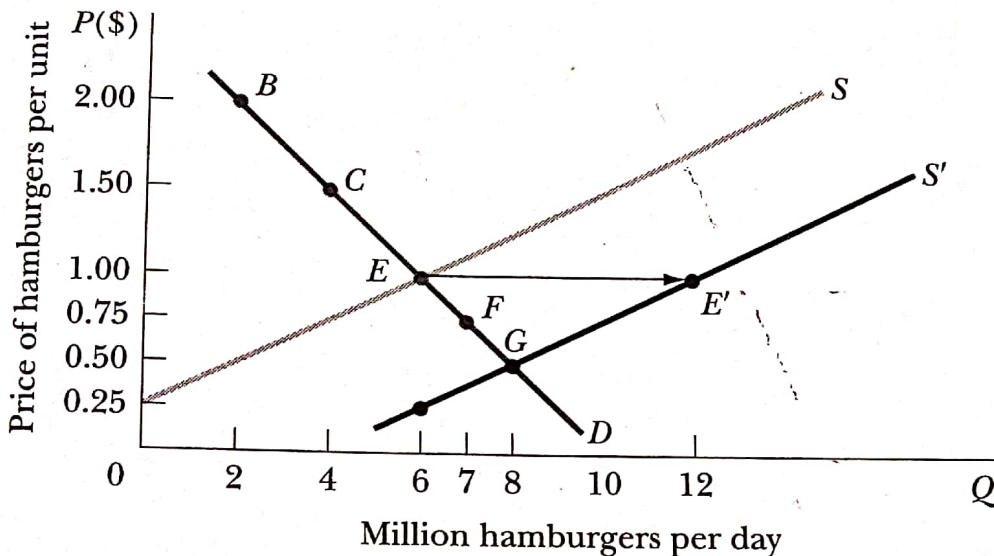
FIGURE 2.7   **Adjustment to an Increase in Supply**   *D* and *S* are the original demand and supply curves. The shift from *S* to *S′* results in a temporary surplus of hamburgers, which drives the price down to *P* = $0.50 at which *QS* = *QD* = 8 million hamburgers.

Figure 2.7 shows a shift from *S* to *S′* resulting, for example, from a reduction in the price of beef. The shift results in a temporary surplus of 6 million hamburgers (*EE′* in the figure) at the original equilibrium price of *P* = $1.00 (point *E*). To get rid of their surplus, sellers reduce their price to *P* = $0.50, at which *QS* = *QD* = 8 million hamburgers. As the price of hamburgers falls to *P* = $0.50, the quantity demanded increases (from point *E* to point *G* along *D*) while the quantity supplied decreases (from point *E′* to point *G* along *S′*) until the new equilibrium point *G* is reached. At new equilibrium point *G*, *P* is lower and *Q* is higher than at old equilibrium point *E* and the market, once again, clears.

Starting from Figure 2.5, you should be able to show what happens to the equilibrium price and quantity if both the demand and supply of hamburgers increase, if both decrease, or if one increases and the other decreases. We can similarly examine the effect of changes in demand and supply on the equilibrium price and quantity of any other commodity or service (see Example 2–1).