

### Economic equilibrium

Economic equilibrium is a state where economic forces such as supply and demand are balanced and in the absence of external influences the (equilibrium) values of economic variables will not change.

### Price is above market equilibrium

Surplus. Higher supply than demand.

Equilibrium price falls

Equilibrium qty rises

Happens if new tech released or new firm enters market

### Price below market equilibrium

Shortage. Higher demand than supply.

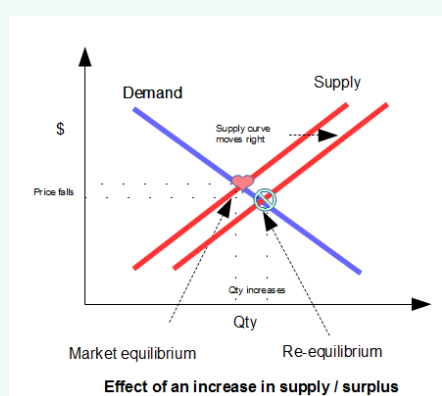
Equilibrium Price rises

Equilibrium qty falls

Demand curve shifts to the right

Maybe because incomes have increased or population has grown.

### Effect of an increase in supply / surplus



### Key equilibrium terms

**Competitive equilibrium** In a competitive equilibrium, supply equals demand.

**Ceteris Paribus 'all else being equal'** Requires that when analysing the relationship between two variables all else must be held constant.

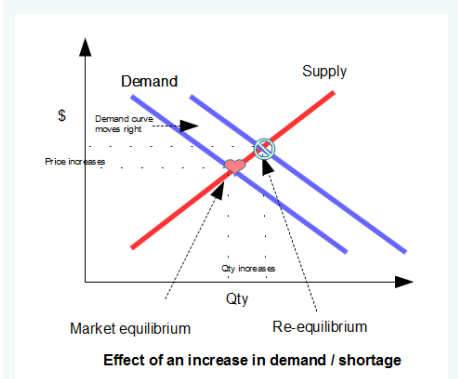
**Market equilibrium** A condition where a market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services offered by sellers.

**Competitive market equilibrium** A market equilibrium with many buyers and many sellers

**Surplus** Qty supplied > qty demanded. Price is above equilibrium.

**Shortage** Qty supplied < qty demanded. Price is below equilibrium

### Effect of an increase in demand / shortage



### Properties of equilibrium

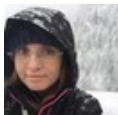
Three basic properties of equilibrium in general proposed by Huw Dixon:

- P1 The behavior of agents is consistent.
- P2 No agent has an incentive to change its behavior
- P3 Equilibrium is the outcome of some dynamic process (stability).

### Complementary goods

Complementary goods: price change of one effects quantity demanded of the other.

Price increasing on complementary	See surplus
Price decreasing on complementary	See shortage



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