

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.

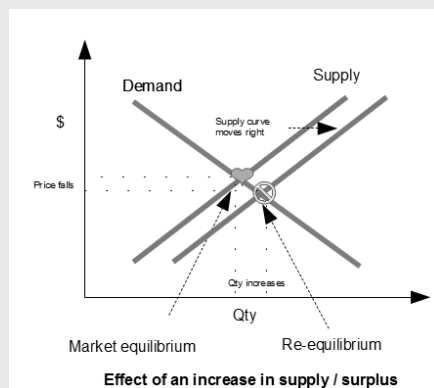
Equilibrium Price rises

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.

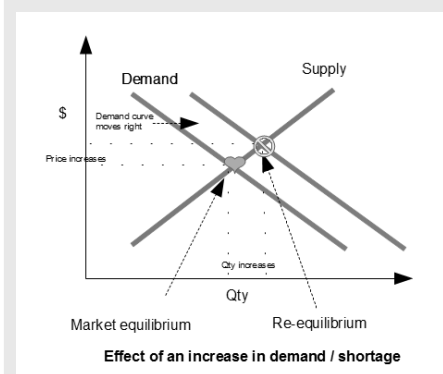
Market equilibrium A condition where a market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services offered by sellers.

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 complimentary See surplus

Price decreasing on complimentary See shortage



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