Equilibrium Cheat Sheet

by Natalie Moore (NatalieMoore) via cheatography.com/19119/cs/2236/

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.

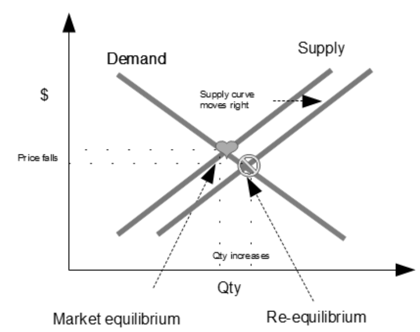
Price is above market equilibrium

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

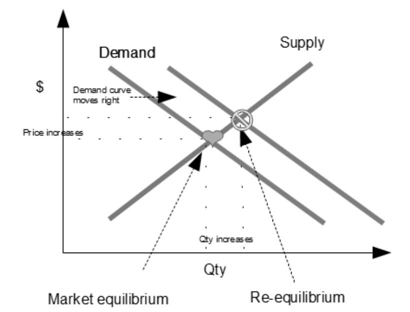


Effect of an increase in supply / surplus

Key equilibrium terms

Competitive equilibrium	In a competitive equilibrium, supply equals demand.
Ceteris Paribius '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



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

By **Natalie Moore**
(NatalieMoore)

cheatography.com/nataliemoore/
www.jchmedia.com/

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