SECTION 4.1 MARKET EQUILIBRIUM PRICE AND QUANTITY

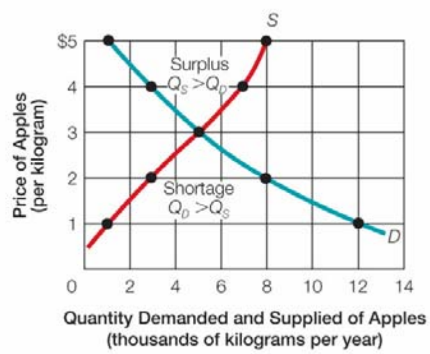
- The price at the intersection of the market demand curve and the market supply curve is called the **equilibrium price** and the quantity is called the **equilibrium quantity**.
- At the equilibrium market price, the amount that buyers are willing and able to buy is exactly equal to the amount that sellers are willing and able to produce. If the price is set above or below the equilibrium price, there will be shortages or surpluses. However, market forces will move the price back to the equilibrium level.
- At the equilibrium price, both buyers and sellers are able to carry out their purchase and sales plans. However, at any other price, either suppliers or demanders would be unable to trade as much as they would like.

section 4.1
Exhibit 1

A Hypothetical Market Supply and Demand Schedule for Apples

Price	Quantity Supplied	Quantity Demanded	Difference	State of Market
$5	8000	1 000	7 000	Surplus
4	7000	3 000	4 000	Surplus
3	5000	5 000	0	Equilibrium
2	3000	8 000	−5 000	Shortage
1	1000	12 000	−11 000	Shortage

The equilibrium is $3 per kilogram and 5000 kilograms of apples, where quantity demanded and quantity supplied are equal. At higher prices, quantity supplied exceeds quantity demanded, resulting in a surplus. Below $3, quantity demanded exceeds quantity supplied, leading to a shortage.



- At a price greater than the equilibrium price, a **surplus** would exist, where quantity supplied exceeded quantity demanded. Sellers would be willing to sell more than demanders would be willing to buy. Frustrated suppliers would cut their price and cut back on production, and consumers would buy more, eliminating the unsold surplus and returning the market to equilibrium.
- At a price less than the equilibrium price, a **shortage**, or excess quantity demanded, would exist. Buyers would be willing to buy more than sellers would be willing to sell. Frustrated buyers would compete for the existing supply, bidding up the price, which would make producers willing to increase the quantity supplied and decrease the quantity demanded, eliminating the shortage, returning the market to equilibrium.