

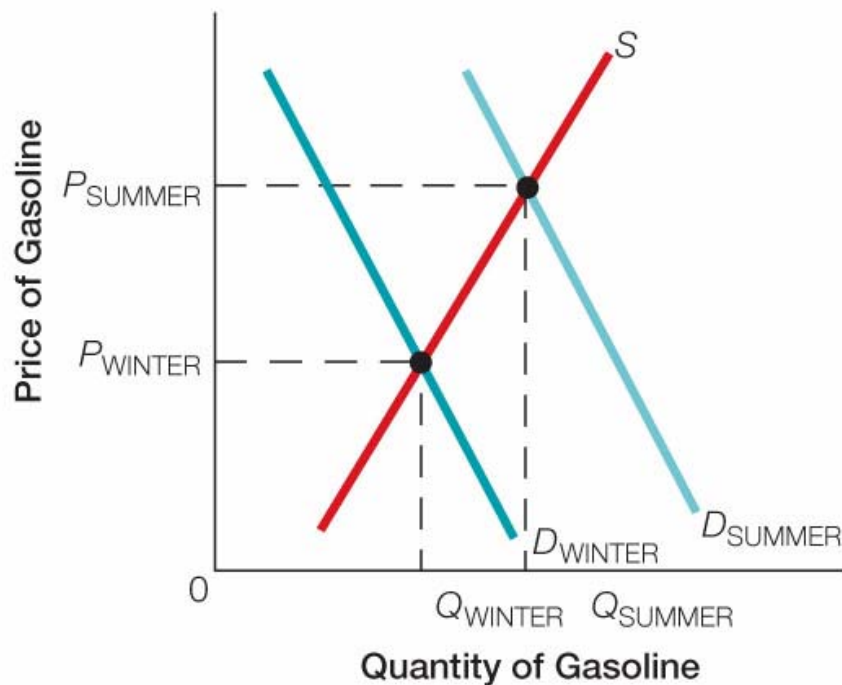
SECTION 4.2 CHANGES IN EQUILIBRIUM PRICE AND QUANTITY

- A shift in the demand curve – caused by a change in the price of a related good (substitutes or complements), income, the number of buyers, tastes, or expectations - results in a change in equilibrium price and equilibrium quantity.
- A shift in supply will also change equilibrium price and quantity. An increase in supply results in a lower equilibrium price and a higher equilibrium quantity. Conversely, a decrease in supply results in a higher equilibrium price and a low equilibrium quantity.
- The summer, when people do more travelling has a demand side effect and is represented by a shift in the demand curve. The demand for gasoline increases in the summer and will tend to increase prices. Similarly, prices of hotel rooms at ski resorts will be lower in the off-season than prices during skiing season.

section 4.2

Exhibit 1

Higher Gasoline Prices in the Summer



The demand for gasoline is generally higher in the summer than in the winter. The increase in demand during the summer, coupled with a fixed supply, means a higher price and a greater quantity.

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Exhibit 2

Change in Demand

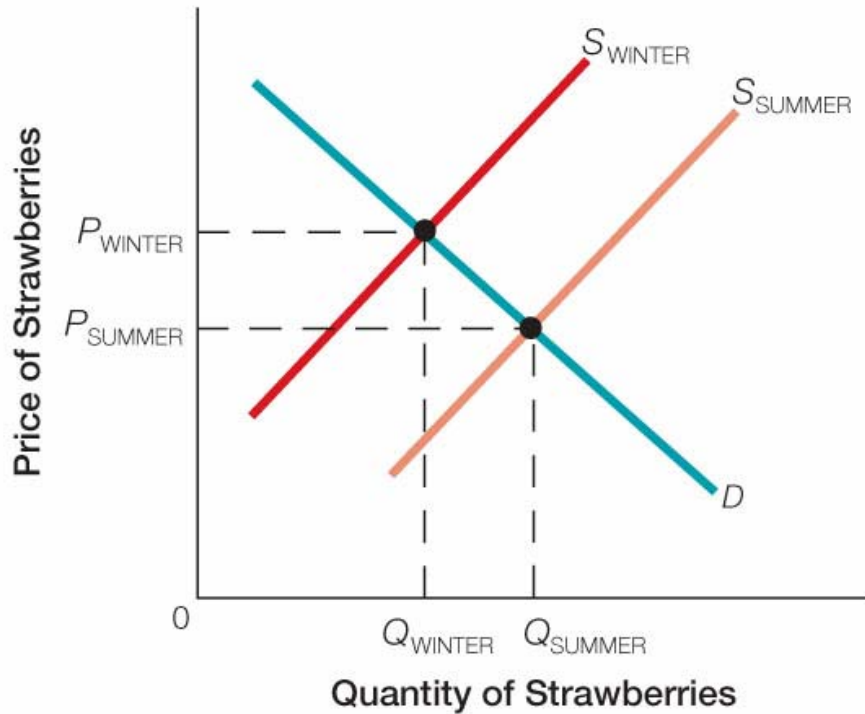


- A shift in the supply curve also influences both equilibrium price and quantity. An increase in supply shifts the supply curve to the right, resulting in a lower equilibrium price and a greater equilibrium quantity.

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Exhibit 3

Lower Strawberry Prices in the Summer

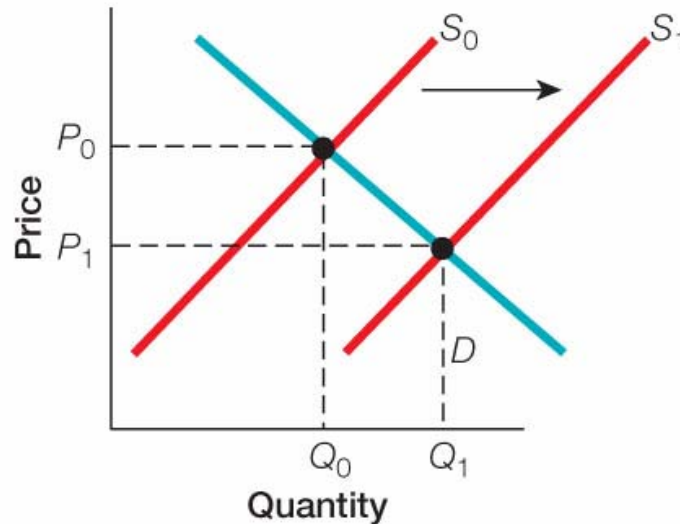


In the summer the supply of fresh strawberries is greater and this leads to a lower equilibrium price and a greater equilibrium quantity, *ceteris paribus*. In the winter, the supply of fresh strawberries is lower and this leads to a higher equilibrium price and a lower equilibrium quantity, *ceteris paribus*.

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Exhibit 4

A Change in Supply



HD televisions became more mainstream and more manufacturers began to produce them, leading to lower equilibrium price and greater equilibrium quantity, *ceteris paribus*.

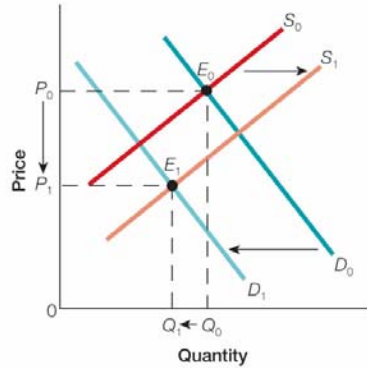
- When supply and demand move at the same time, we can predict the change in one variable (price or quantity), but we are unable to predict the direction of effect on the other variable with any certainty. This change in the second variable is indeterminate, because it cannot be determined without additional information about the relative changes in supply and demand.

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Shifts in Supply and Demand

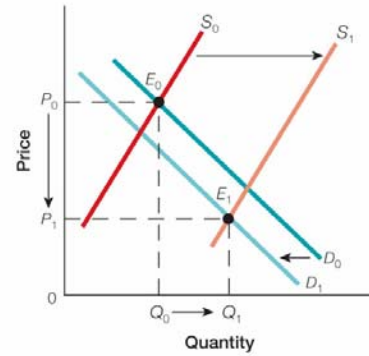
Exhibit 5

a. A Little Increase in Supply and a Big Decrease in Demand



If the decrease in demand (leftward shift) is greater than the increase in supply (rightward shift), the equilibrium price and equilibrium quantity will fall.

b. A Big Increase in Supply and a Little Decrease in Demand



If the increase in supply (rightward shift) is greater than the decrease in demand (leftward shift), the equilibrium price will fall and the equilibrium quantity will rise.

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The Effect of Changing Demand and/or Supply

Exhibit 6

If Demand	and Supply	Then Equilibrium Quantity	and Equilibrium Price
1. Increases	Stays unchanged	Increases	Increases
2. Decreases	Stays unchanged	Decreases	Decreases
3. Stays unchanged	Increases	Increases	Decreases
4. Stays unchanged	Decreases	Decreases	Increases
5. Increases	Increases	Increases	Indeterminate*
6. Decreases	Decreases	Decreases	Indeterminate*
7. Increases	Decreases	Indeterminate*	Increases
8. Decreases	Increases	Indeterminate*	Decreases

*May increase, decrease, or remain the same, depending on the size of the change in demand relative to the change in supply.

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Exhibit 7

The Combinations of Supply and Demand Shifts

