Economics – Study Guide -Prices

Section 1 – Combining Supply and Demand

Balancing the Market

- Equilibrium – the point at which quantity demanded and quantity supplied are equal
- Graphing Equilibrium – point at which the demand and supply curves cross

Disequilibrium

- Disequilibrium Describes any price or quantity not at equilibrium, when quantity supplied is not equal to quantity demanded in a market
- Excess Demand – when quantity demanded is more than quantity supplied
- Excess Supply – When quantity supplied is more than quantity demanded

Governmental Intervention

- Price Ceiling – a maximum price that can be legally charged for a good or service

  (EX: Rent Control)
- Price Floor – A minimum price for a good or service

  (EX: Minimum Wage, Price Supports in Agriculture)

Section 2 – Changes in Market Equilibrium

Changes in Price

- Equilibrium moves when either the supply or demand or both curves move or are moved upon
- Surplus – situation in which quantity supplied is greater than quantity demanded; also known as excess supply

Shifts in Demand

- Shortage – situation in which quantity demanded is greater than quantity supplied; also known as excess demand
- Search Costs – the financial and opportunity costs consumers pay when searching for a good or service

Section 3 – The Role of Prices

Advantages of Prices

- Price as incentive
- Price as Signals
- Flexibility
  - Supply shock
  - Rationing (EX: queuing)
- Price System is "Free"

A Wide Choice of Goods

- Market based system provides the most diverse collection of goods and services and allocates its resources in a very efficient manner.

The Black Market

- A market in which goods are traded illegally, often above the legal price ceiling price

Market Problems

- Spillover Costs – Costs of production that affect people who have no control over how much of a good is produced