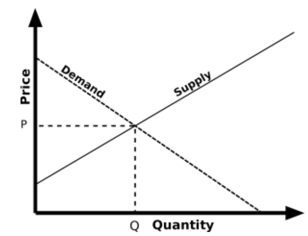
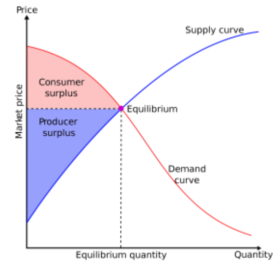
Economics Chapter 6: Combining Supply and Demand

SCHS SOCIAL STUDIES	What you need to know	UNIT TWO

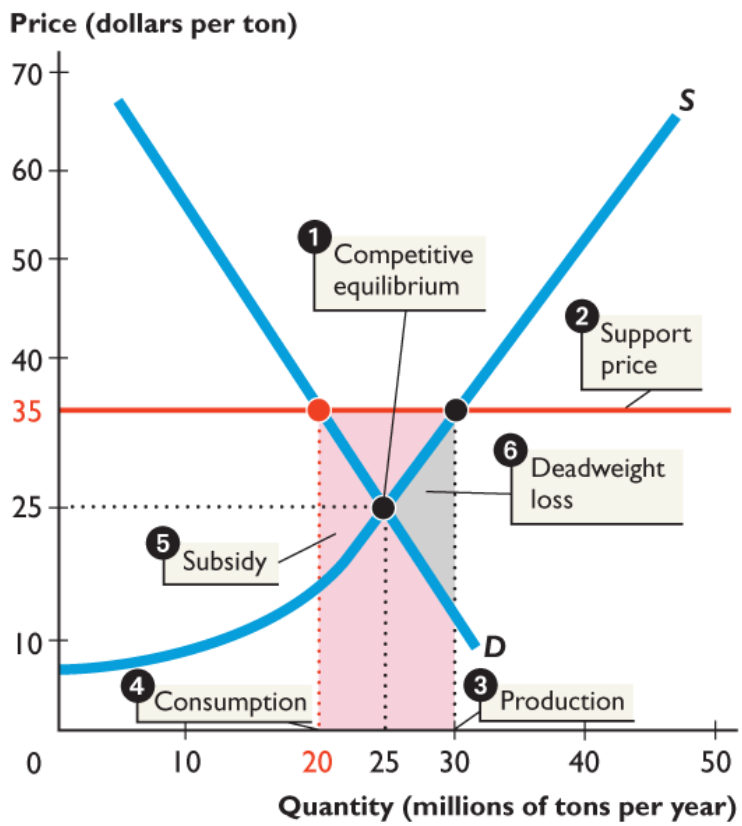


1. Explain how supply and demand create balance in the marketplace
2. Explain how a market reacts to a fall in supply by moving to a new equilibrium
3. List the advantages of a price based system
4. Describe the relationship between prices and the profit incentive



Terms you should know

Equilibrium
Disequilibrium
Excess of Demand
Excess of Supply
Price ceiling
Price Floor
Rent Control
Minimum Wage
Surplus
Shortage
Search Costs
Supply Shock
Black Market
Spillover Costs



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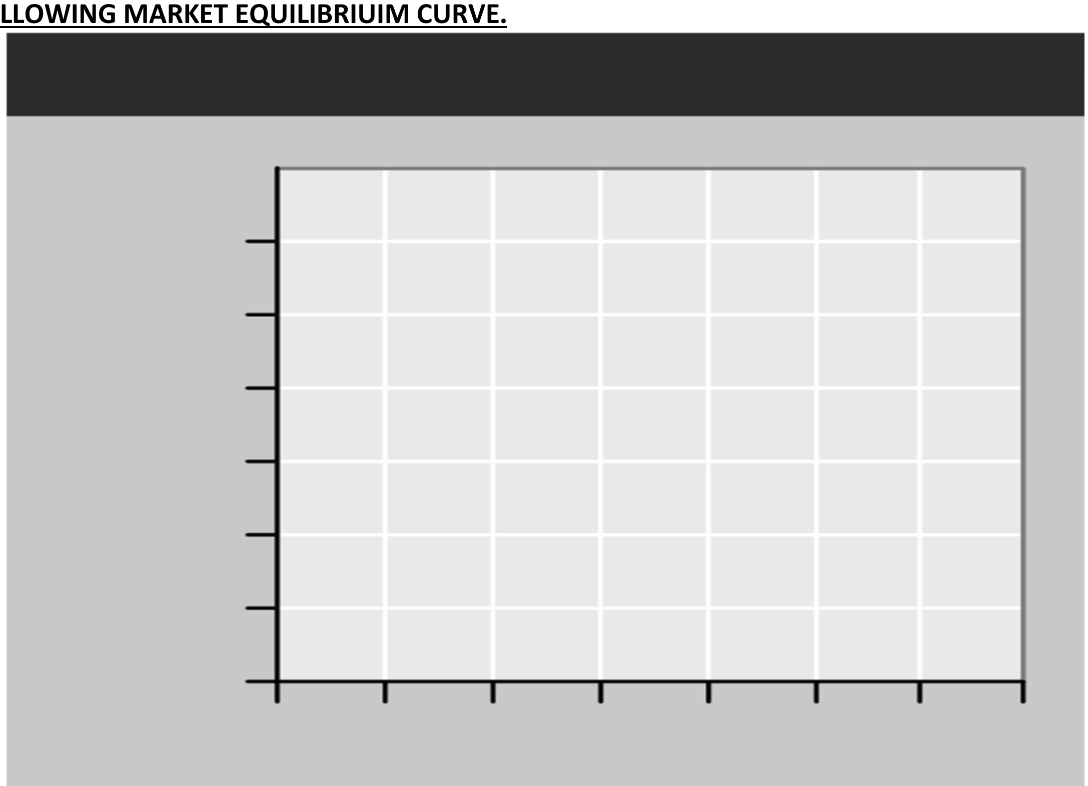
6-1 Summary: Fill in the missing words.

A market _________________________ is the point at which quantity supplied and quantity demanded are equal. At that point, buyers are willing to buy at the same price and quantity at which sellers are willing to sell. This price is the ______________________________. On a graph, the equilibrium point is located at the point where the supply curve and the demand curve intersect. A market is said to be in _______________________ when the quantity supplied does not equal the quantity demanded at a certain price. When quantity demanded is more than the quantity supplied, there is ____________________________. A price lower than the equilibrium price will encourage buyers and discourage sellers. Prices will rise because sellers hope to increase their profits. When quantity supplied is more than quantity demanded, there is __________________________. Prices will fall because sellers need to sell their supply. Whenever there is excess in supply or demand, market forces work to create equilibrium.

Sometimes governments attempt to control prices in a market. Governments may set a ________________________, a maximum price that can be charged. For example, some cities have price ceilings on rental apartments, If the price ceiling is lower than the equilibrium price, there will be an excess of __________________. Fewer apartments are offered than people want to rent. Governments may also set a ______________________, a lowest price that can be paid. An example is the ___________________________, the lowest hourly rate a business can pay workers. When a minimum wage is set higher than the equilibrium rate, there is excess ____________________ of labor.

Markets are in equilibrium when the amount demanded is equal to the amount supplied. COMPLETE THE FOLLOWING MARKET EQUILIBRIUIM CURVE.



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Supply the requested information in the spaces provided.

In the Case of the Pizzerias

1**.** The market equilibrium price: ____

2. The market supply level: ____

3. The market demand level: ____

In Any Market Environment

4. How equilibrium is shown in a supply and demand graph: ______________________________
____

5. Two possible outcomes of disequilibrium: ____
____

6. Supplier price response to excess demand: ____
____

7. Condition under which market forces will push market toward the equilibrium: ___________
____

In the Case of Government Intervention

8. The purpose(s) of rent control: ____
____

9. Negative results of ending rent control: ____
____

10. Effect on labor when minimum wage exceeds equilibrium: ____________________________

11. Purpose of Northeast Dairy Compact: ____
____

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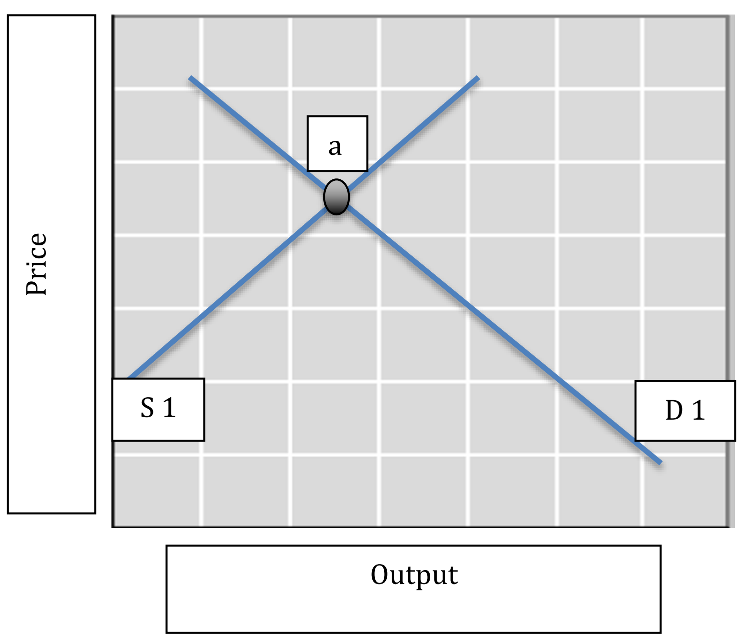
<u>6-2 Summary</u>: Fill in the missing words.

The previous section described disequilibrium that occurs along a demand or supply curve. If a price is higher or lower than equilibrium price, market forces push prices back toward equilibrium. Sometimes, however, changes in market conditions lead to the shift of an entire demand curve or supply curve. This means that the quantity demanded or supplied is now different at all price levels. These changes also push a market into _________________________, and market forces tend to bring it back to _____________________.

Technology, for example, can make a good cheaper to produce. The earliest CD players cost about $1,000. As technology improved prices ________________. The supply curve shifted to the ________________ as supply increased. Producers were now willing to offer greater quantities of CD players at all prices. However, quantity supplied was now greater than quantity demanded. Another word for this situation is __________________. Producers reacted to the surplus by lowering prices, and eventually price and quantity reached a new equilibrium.

An outward shift in demand can be caused by a fad, such as the surge in popularity of a new toy. Buyers want more toys than are supplied, and a _____________________ occurs. A shortage is when quantity demanded is __________________________ than quantity supplied. During a shortage, producers and stores tend to raise prices. The market price will __________________ until the quantity supplied equals the quantity demanded, and a new equilibrium is established.

When supply or demand shifts, market price and quantity sold move toward a new equilibrium.
<u>COMPLETE THE FOLLOWING SHIFT IN THE SUPPLY OF CD PLAYERS BECAUSE OF TECHNOLOGICAL IMPROVEMENETS.</u>



Complete the chart by supplying an effect for each cause.

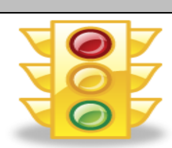
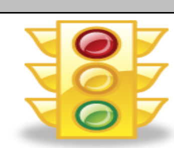
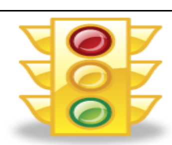
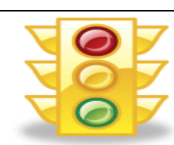
Cause	Effect
1. Entire supply curve shifts.	1.
2. Technology for making compact discs players improves.	2.
3. After a drop in production cost, CD player suppliers become willing to offer 1,200,000 units at the original price, but demand remains at 1,000,000.	3.
4. Price of CD players continues to fall.	4.
5. Production cost of CD players continues to fall.	5.
6. Market's supply curve shifts to the left.	6. *In the market*: *On the equilibrium point:*
7. Demand Curve of a good suddenly shifts right.	7.
8. Signs of excess demand for the good continue over time.	8. *On suppliers:*
9. Demand for a good falls.	9. *On the demand curve:*

<u>6-3 Summary</u>: Fill in the missing words.

Prices are like signals that send information to buyers and sellers. For producers, a _________ price is a signal to increase ______________. A ______________ price is a signal to reduce the ___________________ or leave the market. For buyers, a low price is a signal to ______________, and a high price is a signal to think before buying. Another advantage of prices is that they are ________________. Prices can usually change more quickly than production levels. A ______________________ occurs when there is a sudden shortage of a good, such as wheat or gasoline. Because supply usually cannot be increased quickly, increasing prices helps resolve excess demand.

___________________ is a system for allocating goods and services using tools other than price. Centrally planned economies use rationing, not price, to distribute goods and services. Rationing is expensive to administer. It tends to lead to only a few products, rather than the wide variety we enjoy in our price-based system. Prices do not always work efficiently in market in which there is not much _____________________, or in which buyers and sellers do not have enough information. Another problem is ____________________________, such as air and water pollution, that "spill over" onto other people who have no control over how much of a good is produced. Producers do not usually pay spillover costs, and the extra cost will be paid by the ____________________.

Price acts as a signal for both producers and consumers. <u>FROM YOUR TEXTBOOK, COMPLETE THE CHART TO SHOW PRICE AS A SIGNAL.</u>

	Producers	Consumers
High Price	 **Green Light**	 **Green Light**
Low Price	 **Red Light**	 **Red Light**

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Answer the following questions on the lines provided.

1. What overall, vital role do prices play in the free market? ______________________________
   ____
   ____

2. What standards do prices set? ____

3. What signals do high prices send to producers and consumers? _________________________
   ____

4. Why do suppliers use price rather than production to resolve the problem of excess demand? ____
   ____

5. What drives the distribution system in the free market? _______________________________
   ____

6. How does a price-driven economy allow for a wide diversity of goods? __________________
   ____

7. What was the goal of the Soviet planned economy? ___________________________________
   ____

8. How did the Soviet economic system affect consumer goods? ___________________________
   ____

9. How does the free market ensure an efficient allocation of resources? __________________
   ____
   ____

10. What motivates suppliers to increase production in the face of high demand and high prices? ____
    ____

11. What three problems in the free market work against the efficient allocation of resources?
    ____
    ____