

Bringing the curves together

1. Create a combined demand and supply schedule (see at right).

IMPORTANT: Make sure you create an *equilibrium price* by **making one of the price levels have the exact same quantity demanded (D) and quantity supplied (S).**

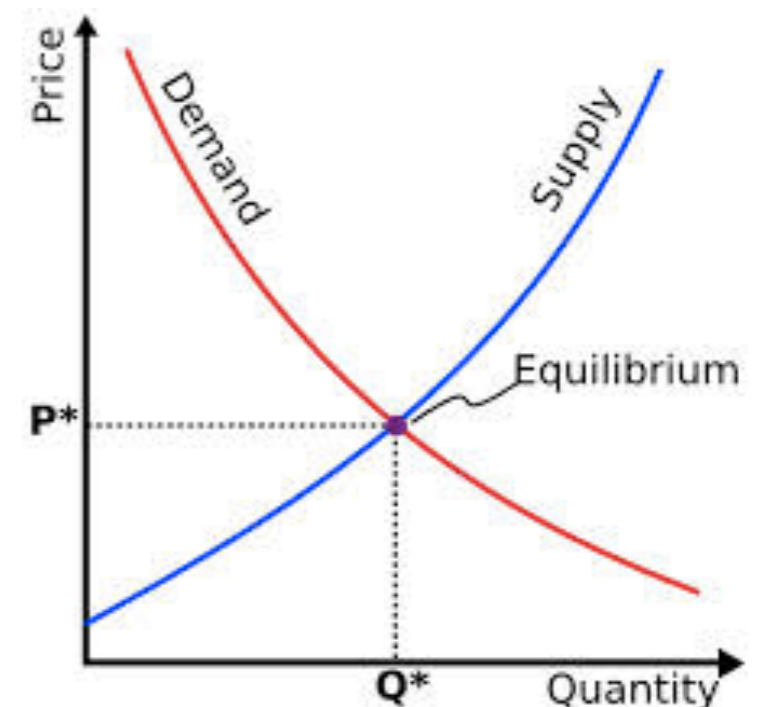
2. Now create **ONE graph** but plot both sets of points - first make the demand curve and label it D; then make the supply curve and label it S.

3. Now label the *equilibrium price* and draw dotted lines (vertically and horizontally) to show the price point at which quantity demanded and quantity supplied are equal.

Step 1

| D | \$ | S |
|-------------------|-------|-------------------|
| Quantity Demanded | Price | Quantity Supplied |
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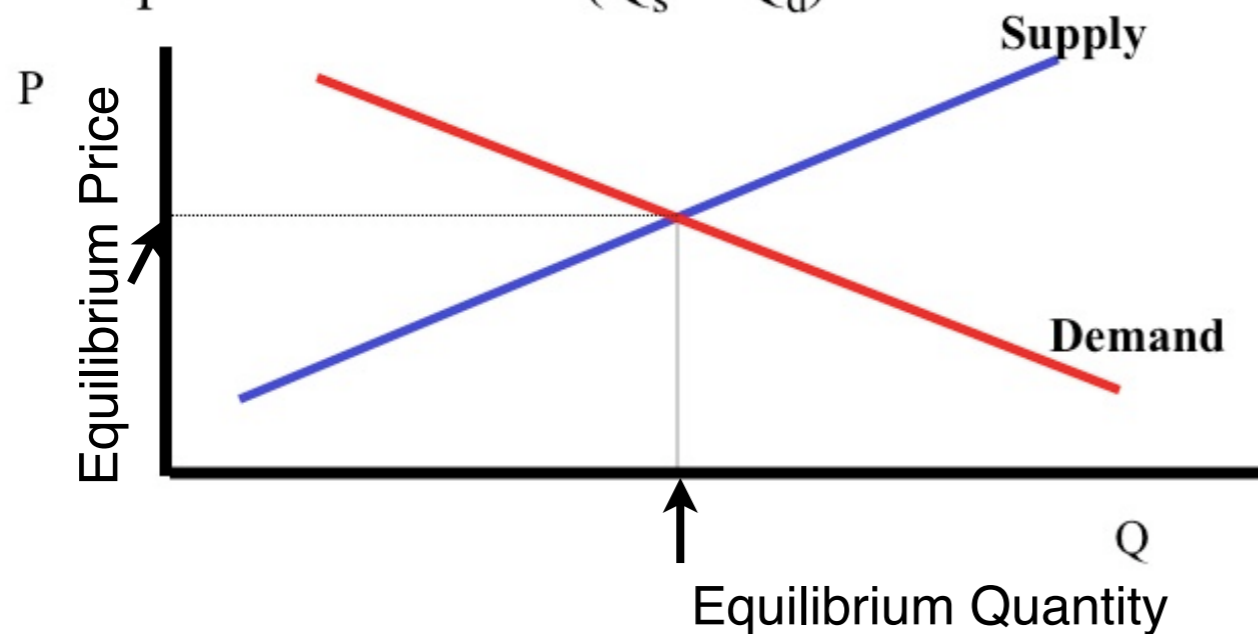
Steps 2 and 3



MARKET EQUILIBRIUM

Market Equilibrium

- Equilibrium Price & Quantity
- Price is a **rationing** tool
- Intersection – the price where all that is produced is sold ($Q_s = Q_d$)



A situation in which prices are fairly stable and the quantity of goods and services supplied is equal to the quantity demanded.

The equilibrium price is the price that “clears the market” by leaving neither a surplus or a shortage at the end of the trading period.

What if we are at a different price and quantity than the equilibrium price and equilibrium quantity? Those situations are described on the next slide.