Your notes

GCSE Economics: revision notes

How prices are determined

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Market equilibrium

- The **equilibrium price** is where the quantity demanded equals the quantity supplied. It is shown where the demand and supply curves cross.
- At this price, the market "clears": there is no shortage or surplus.

Shortages and surpluses

- If the price is above equilibrium, there is **excess supply** (a surplus). Firms cut prices until equilibrium is reached.
- If the price is below equilibrium, there is **excess demand** (a shortage). Prices rise until equilibrium is reached.

Shifts and new equilibrium

- An increase in demand (demand shifts right) raises both the **equilibrium price** and quantity.
- A decrease in demand lowers both.
- An increase in supply (supply shifts right) lowers the price and raises the quantity.
- A decrease in supply raises the price and lowers the quantity, such as when bad weather cuts a harvest.

Key terms

Equilibrium price	The price where quantity demanded equals quantity supplied.
Excess supply	When quantity supplied is greater than quantity demanded (a surplus).
Excess demand	When quantity demanded is greater than quantity supplied (a shortage).

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Market clearing	When all goods offered for sale are bought.
Equilibrium quantity	The quantity bought and sold at the equilibrium price.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is the equilibrium price?
2. What happens when the price is above equilibrium?
3. What happens when the price is below equilibrium?
4. What happens to price and quantity if demand increases?
5. What happens if supply increases?
6. What happens if bad weather reduces a harvest?
7. What is excess demand?
8. What does "market clearing" mean?

Answers

1. The price where quantity demanded equals quantity supplied
2. There is excess supply
3. There is excess demand
4. Both rise
5. Price falls and quantity rises
6. Price rises and quantity falls
7. A shortage, when demand exceeds supply
8. All goods offered for sale are bought

What to do next

Practise 10 questions on this topic

Try 3 exam questions, with mark schemes

Read the lesson, one step at a time

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