What is Market Equilibrium?

Worksheet

Market equilibrium occurs when supply equals demand at a specific price, so that all buyers wanting to buy at that price can, and all sellers wanting to sell at that price can.

Questions

1. At equilibrium, quantity demanded equals:

A) Price
B) Quantity supplied
C) Consumer income
D) Production cost

2. If price is below equilibrium, what happens?

A) Shortage forms, price tends to rise
B) Surplus forms, price tends to fall
C) Price stays same
D) Nothing

3. What is the condition for market clearing?

A) Supply is larger than demand
B) Demand equals supply
C) Price equals cost
D) Quantity is high

4. If a tax is placed on sellers, which curve shifts?

A) Demand shifts left
B) Supply shifts left
C) Both shift
D) Neither shifts

5. A coffee shop sells coffee at $3/cup. At this price, customers buy 80 cups/day and the shop sells exactly 80 cups/day. Is this equilibrium?

6. Concert tickets are priced at $50. Fans want to buy 1000 tickets but only 500 are available. What kind of market imbalance is this?

7. A grocery store sets oranges at $2/lb. Buyers want 100 lbs but farmers brought 200 lbs. What is the market condition?

8. Define: Define market equilibrium.

9. Define: What is the equilibrium price?

10. Define: What happens at equilibrium?

Answer Key

1. B) Quantity supplied — By definition, equilibrium is where Qd = Qs.

2. A) Shortage forms, price tends to rise — Below equilibrium, demand > supply, so buyers bid price up.

3. B) Demand equals supply — Market clearing = equilibrium = supply = demand.

4. B) Supply shifts left — Tax on sellers raises their costs, shifting supply left. New equilibrium has higher price, lower quantity.

5. Quantity demanded = 80 cups Quantity supplied = 80 cups Quantity demanded = Quantity supplied Yes, this is equilibrium (no shortage, no surplus)

6. Quantity demanded = 1000 Quantity supplied = 500 Quantity demanded > Quantity supplied This is a shortage (excess demand, not equilibrium)

7. Quantity demanded = 100 lbs Quantity supplied = 200 lbs Quantity supplied > Quantity demanded This is a surplus (excess supply, not equilibrium)

8. The price and quantity where supply equals demand. No shortage or surplus exists.

9. The price where the quantity supplied equals quantity demanded — everyone willing to trade at that price can do so.

10. Markets clear: all buyers and sellers who want to transact at the equilibrium price can do so.