Unit 2- Microeconomics ______________________________________NAME

Equilibrium and Price

Price: is the monetary value of a product or service and is established by __________________.

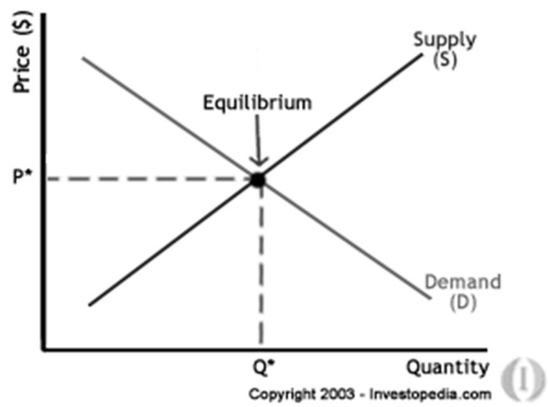
Prices act as ___________ that help us make our economic decisions. Prices communicate information and provide incentives to buyers and sellers.

For example:

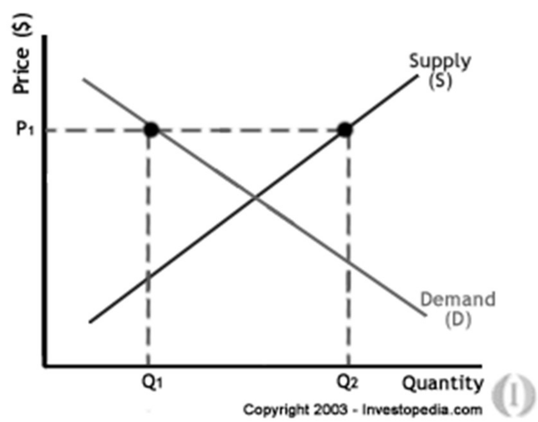
High Price—firms want to produce _______ but consumers want to buy _______.

Low Price—firms want to produce ______ but consumers want to buy ________.

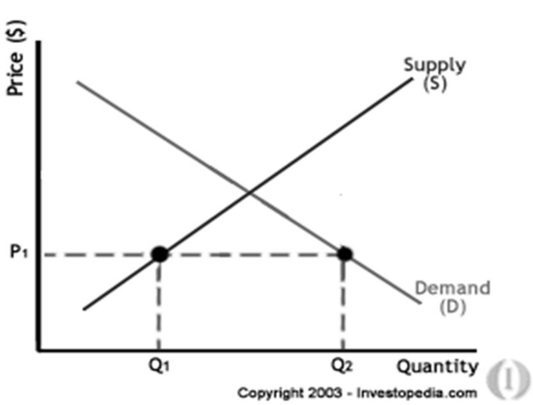
We now want to bring supply and demand together to determine how prices are established in a market economy. It is a process of __________________.



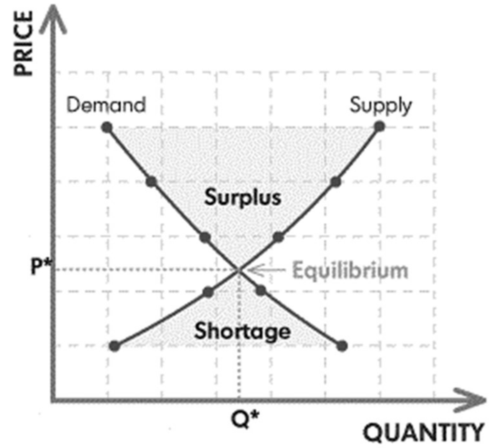
Market Equilibrium: is a situation in which prices are relatively _________ and the quantity supplied is __________ the quantity demanded.



Surplus: when the quantity supplied is ________ than the quantity demanded at a given price. The result of the surplus is that price will _______. (Qs > Qd)



Shortage: when the quantity demanded is __________ than the quantity supplied at a given price. The result of a shortage is that price will ______, (Qd > Qs).



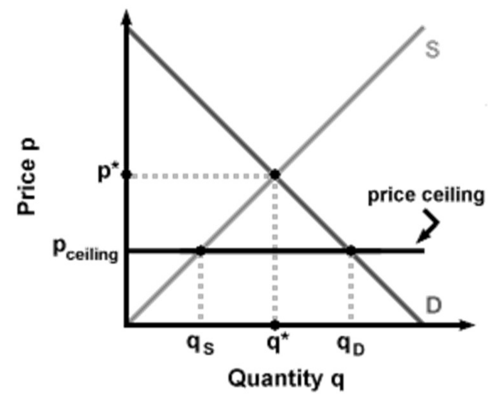
Equilibrium Price: the price that ________________ by leaving neither a surplus not a shortage, (Qs = Qd).

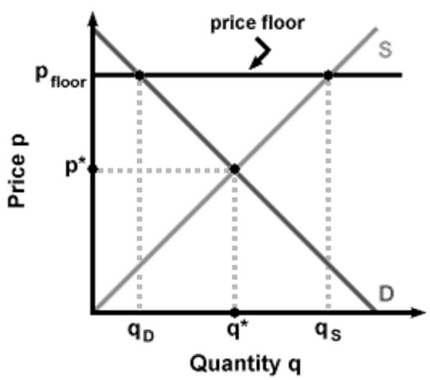
Sometimes society may have to sacrifice some ___________________ in order to achieve greater _________________. Think back to the economic and social goals in unit 1.

One common way to achieve more equity or security for certain groups of people is for the government to ___________ at the socially desirable level. When this happens, prices are not allowed to adjust to reach equilibrium.

PRICE CEILINGS AND PRICE FLOORS

Price Ceiling: the _________________ that can be charged for a product. An example is rent control.





Price Floor: the _________________ that can be charged for a product. Examples include minimum wage and farm products.