**Combining Supply and Demand:**

* Buyers and sellers have to meet at a certain point
* This point is called equilibrium
* Equilibrium – price at which Qs = Qd
	+ “Market Clearing Price”
* At this point, the market for a good is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**How do we find equilibrium?**

Describe what you see in this graph in the space provided below.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Disequilibrium:**

* Disequilibrium – when quantity supplied does not equal quantity demanded
	+ Excess Demand (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) – quantity demanded is more than quantity supplied (prices beneath equilibrium price)
	+ Excess Supply (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) – Quantity supplied is more than quantity demanded (prices above the equilibrium price)

**Think Back to Adam Smith…**

* Adam Smith said that the “invisible hand” let men be free and still do what’s best for all men
* Market equilibrium is the “invisible hand!”
* Companies only produce what society needs because that is best for their profits!

**Government Intervention:**

* In the American \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy, government still takes actions to protect consumers from businesses

**Examples of Interventions:**

* Price Ceilings – a maximum that can be legally charged for a good
	+ Rent Control – a type of price ceiling where the government sets a maximum legal rate for rent
* Problems with Price Ceilings:
* When you set the price lower than the market allows:
	+ Quantity supplied goes down, as businesses don’t want to lose money
	+ Quantity demanded goes up, as consumers want to take advantage of low prices
	+ This all creates \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_!
* Price Floors – a minimum price set by the government that must be paid for a good or service
	+ Minimum Wage – a type of price floor where a business must pay a worker at least a certain amount for an hour of labor
* Problems with Price Floors
	+ If the government sets a price floor above market equilibrium
	+ people \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ consumption of that product
	+ suppliers tend to overproduce
	+ if the government sets minimum wage too high, for example, you get high unemployment rates!

**The Role of Prices:**

**The Price System:**

* The U.S. and other free markets operate under the “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_”
	+ The price system uses a monetary figure to display the value of a good, letting consumers choose which goods to spend their money on

**Advantages:**

* Price is an incentive – it tells consumers and producers how to adjust their patterns
* Price is a signal – it tells people whether the market for a good is profitable or not
* The Price System is Flexible – prices change with supply and demand
* The Price System is Free – the price system does not require large government agencies to oversee the distribution of goods

**Problems with Other Systems:**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the government sets limits on how much of a product you are allowed to consume
	+ Rationing causes shortages since the government often does not set reasonable limits
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – the market where goods are sold illegally
	+ Black Markets encourage higher prices, and also defeat the purpose of a command economy

**Here’s Why it Matters:**

* The Price System allows resources to be allocated (given out) efficiently
* All resources are placed where they are most valuable to consumers
* All without the intrusion of the government in your life!

**Possible Disadvantages:**

* Imperfect Competition – if only a few firms sell a product, there is not enough competition to keep prices \_\_\_\_\_\_\_\_\_\_\_\_\_.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Costs – costs that affect people with no control over the production of a good (such as pollution)