

CHANGES IN MARKET EQUILIBRIUM

TEXT SUMMARY

The previous section described disequilibrium that occurs along a demand or supply curve. If a price is higher or lower than equilibrium price, market forces push prices back towards equilibrium. Sometimes, however, changes in market conditions lead to the shift of an entire demand curve or supply curve. This means that the quantity demanded or supplied is now different at all price levels. These changes also push a market into disequilibrium, and market forces tend to bring it back to equilibrium.

Technology, for example, can make a good cheaper to produce. The earliest CD players cost about \$1,000. As technology improved, prices dropped. The supply curve shifted to the right as supply increased. Producers were now willing to offer greater quantities of CD players at all

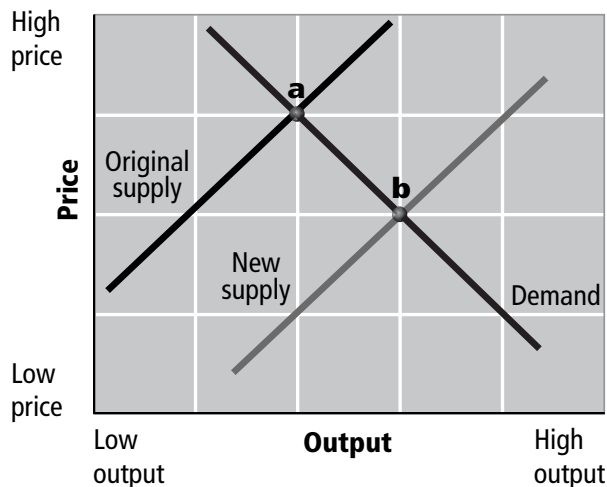
prices. However, quantity supplied was now greater than quantity demanded. Another word for this situation is **surplus**. Producers reacted to the surplus by lowering prices, and eventually price and quantity reached a new equilibrium.

An outward shift in demand can be caused by a fad, such as the surge in popularity of a new toy. Buyers want more toys than are supplied, and a **shortage** occurs. A shortage is when quantity demanded is greater than quantity supplied. During a shortage, producers and stores tend to raise prices. The market price will rise until the quantity supplied equals the quantity demanded, and a new equilibrium is established.

THE BIG IDEA

When supply or demand shifts, market price and quantity sold move towards a new equilibrium.

GRAPHIC SUMMARY: A Shift in Supply



Technological improvements led to a shift in the supply of CD players. On this graph the shift is represented by the curve marked *New supply*. Prices fell and quantity demanded rose, leading to a new equilibrium at point *b*.

REVIEW QUESTIONS

1. What is the difference between a surplus and a shortage?
2. **Graph Skills** Which has the higher price, point *a* or point *b*?