



1) The "equilibrium condition" that describes the level of aggregate output (Q) which satisfy both producers and their customers is in the point E, where supply and demand are equal.

On this graph:

- P – price;
- Q – quantity of good;
- S – supply;
- D – demand;
- Po – price of marketing;

- A – surplus of demand – when $P < P_0$;
- B – surplus of supply – when $P > P_0$;
- E – equilibrium point.

2) In this situation the extra output is the difference between the produced goods and the demand, which was on the market before the equilibrium was changed. When there is a surplus product, the sellers can not sell all that they hoped to sell at this price and the exceed of goods exists. Producers change their plans. Some of them will reduce their supply of goods. Others lowered their prices to encourage customers to consume more, and thus reduce their excess stockpiles.

3) As a result of these changes the quantity of the goods will move to the left and down on the supply curve. Since excessive inventories have pressure on the price above, then buyers will also change their plans. Finding that the goods are cheaper than they expected, they move down and right on curve, the market enters a state of equilibrium.

4) If the aggregate output is less than the equilibrium level, then there is a deficit of goods. This means that all demand can be satisfied with the produced goods. At this situation the equilibrium price rises, because producers understand that in though quantity of the produced goods, consumers are ready to pay more. Then the equilibrium point moves to the right and up on the demand curve and the market enters a state of equilibrium again.