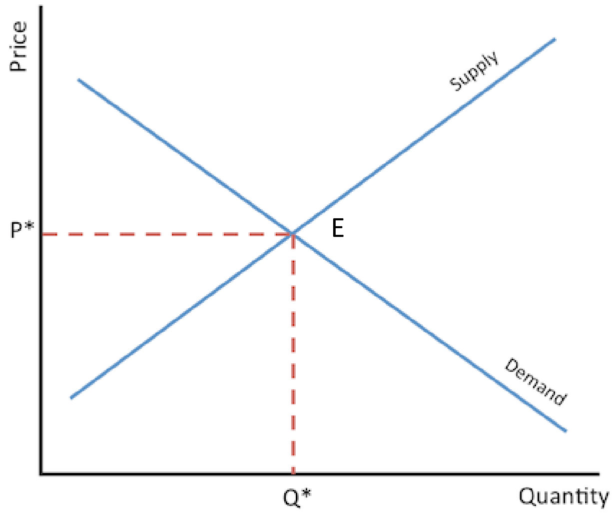
Answer on Question #80089 - Economics - Microeconomics

Question

Explanation of equilibrium including graph?

Answer

We can see the graph here:



Each buyer wants to buy goods at prices as small as possible. That is, the lower the price, the more purchases will be made. This is the law of the demand. On the graph, this line calls “Demand”.

On the contrary, the producers want to sell their goods at high prices. So, the lower the price, the less the product will be offered in the market. It is not profitable for producers to produce goods and sell them at low prices. They need to make their profits. This is the law of supply. On the graph, this line calls “Supply”.

To satisfy the buyers’ and sellers’ desire they need to find an equal price and quantity. The buyers and sellers will reach equilibrium when the quantity demanded and the quantity supplied are equal. In the graph, we can see the point E. The price P* and the quantity Q* at which the seller is ready to sell and the buyer can buy are equal, the lines “Demand” and “Supply” cross each other. So, this point E is market equilibrium.