

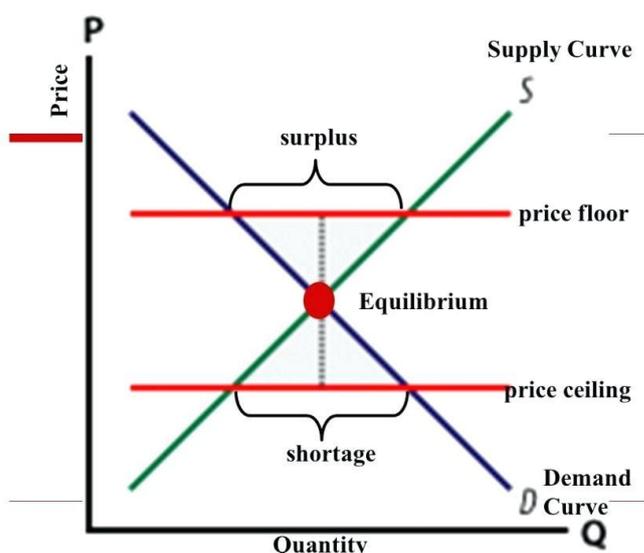
Answer on Question #80255- Economics - Microeconomics

Question

What is market equilibrium? Show this graphically (You can insert the graph image). Why is it advantageous for the market price to be at equilibrium? Discuss the issues of Price Ceiling and Price Floor.

Answer

Market equilibrium is a situation in which the opportunities of sellers to sell meet the capabilities of buyers to buy goods and services.



As we see in the graph, market equilibrium is the point of crossing two curves: a demand and a supply.

It is advantageous for the market price to be at equilibrium. Because there are neither shortages nor surpluses in the market. All goods and services, which produced, will be sold. Moreover, the consumers will satisfy all their needs. It is a very good situation.

Price ceiling is a situation when sellers have to sell their goods or services at the prices less than the equilibrium ones. Many sellers cannot afford to work with losses. Shortly, the quantity of goods or services will decrease. The consumers will not satisfy all their needs. In the market, we have the situation, which calls shortage. This situation is not favorably for neither sellers nor buyers.

Price floor is a situation when sellers have to sell their goods or services at the prices more than the equilibrium ones. However, the buyers cannot buy them at these prices. They refuse to buy these products. In the market, we have the situation, which calls surplus. This situation is not favorably for neither sellers nor buyers too, because none of them will not satisfy their needs

So, market equilibrium is the best situation for sellers and buyers.