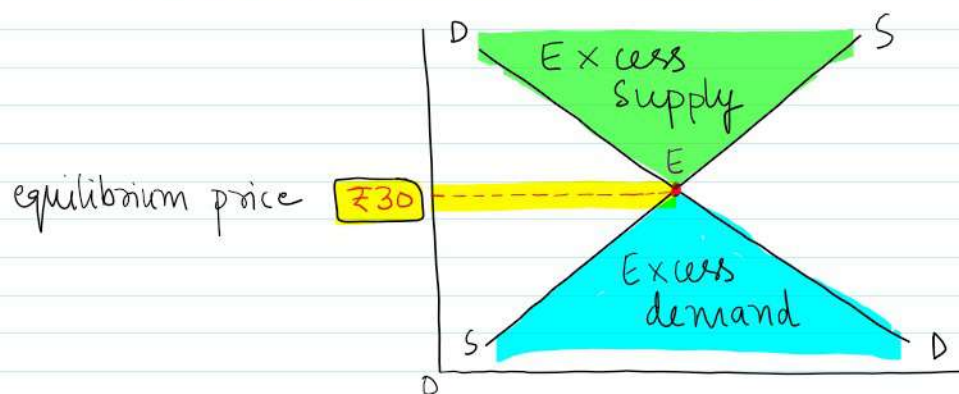


Unit 2Determination of Price

In general, interaction between demand & supply determines the price

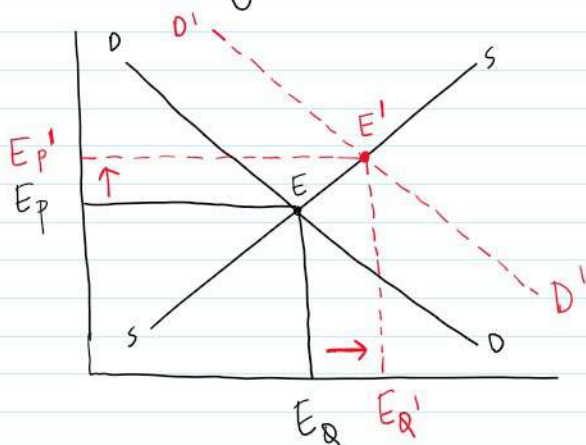
Price	Quantity demanded	Quantity Supplied	
₹10	500 units	100 units	Excess Demand
₹20	400 units	200 units	
₹30	300 units	300 units	EQUILIBRIUM
₹40	200 units	400 units	Excess Supply
₹50	100 units	500 units	

E_p

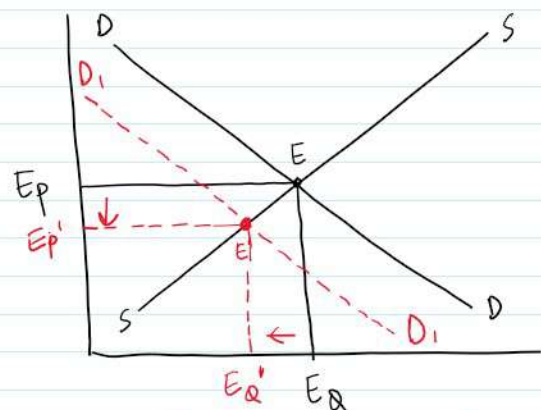


* In some cases, government intervenes and determines the price. (eg Fertilisers, Kerosene etc)

→ Change in Demand



1. Increase in Demand



Decrease in Demand

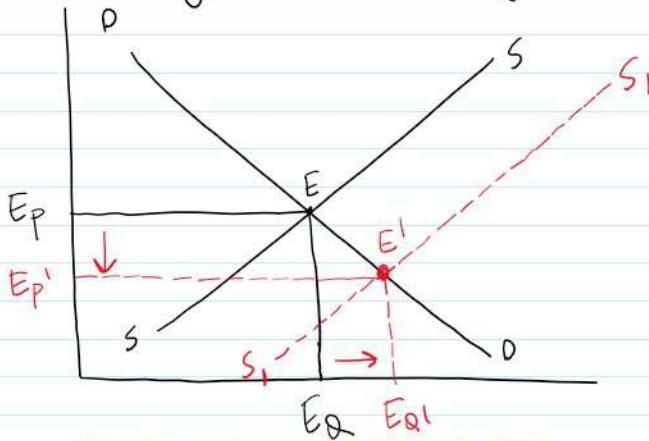
$E_Q \quad E_Q'$
Increase in Demand

Ans:- $E_P(\uparrow) \quad E_Q(\uparrow)$

$E_Q' \quad E_Q$
Decrease in Demand

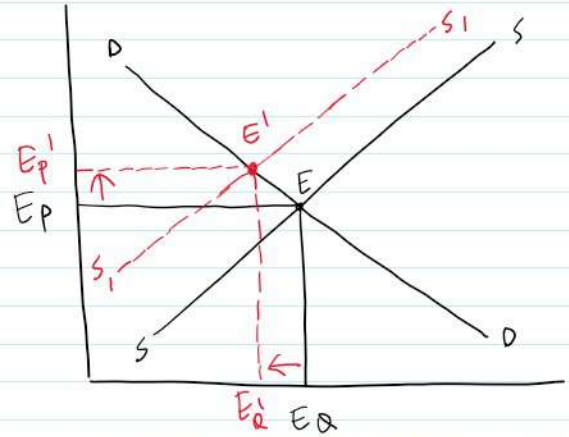
Ans:- $E_P(\downarrow) \quad E_Q(\downarrow)$

* Change in Supply



Increase in Supply

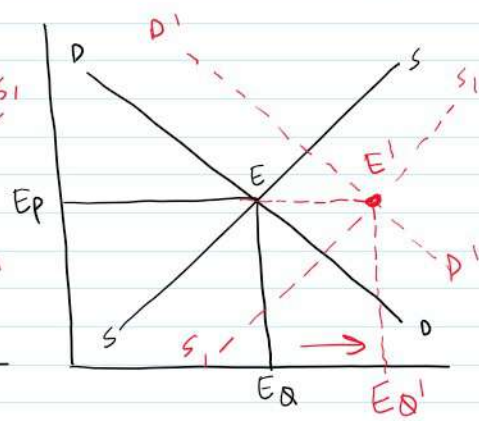
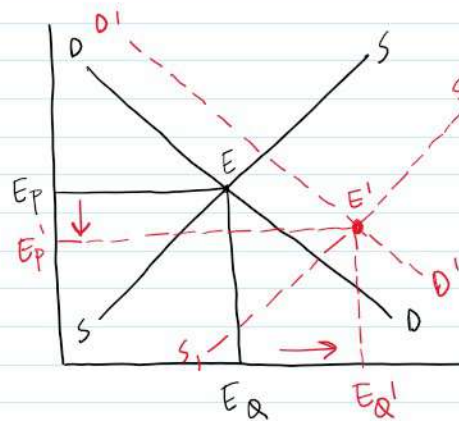
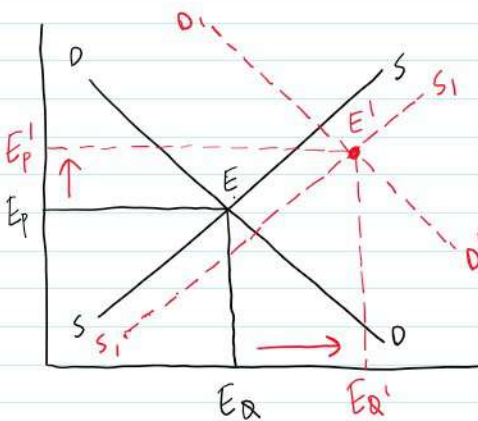
Ans:- $E_P(\downarrow) \quad E_Q(\uparrow)$



Decrease in Supply

Ans:- $E_P(\uparrow) \quad E_Q(\downarrow)$

* Simultaneous Increase in Demand + Increase in Supply



$\uparrow D > \uparrow S$

Ans:- $E_P(\uparrow) \quad E_Q(\uparrow)$

$\uparrow D < \uparrow S$

Ans:- $E_P(\downarrow) \quad E_Q(\uparrow)$

$\uparrow D = \uparrow S$

Ans:- E_P No change
 $E_Q(\uparrow)$

* Simultaneous Decrease in Demand & Decrease in Supply

$\downarrow D > \downarrow S$

$E_p \downarrow \quad E_a \downarrow$

$\downarrow D < \downarrow S$

$E_p \uparrow \quad E_a \downarrow$

$\downarrow D = \downarrow S$

$E_p \quad E_a \downarrow$

* Simultaneous Decrease in Demand & Increase in Supply

$\downarrow D > \uparrow S$

$E_p \downarrow \quad E_a \downarrow$

$\downarrow D < \uparrow S$

$E_p \downarrow \quad E_a \uparrow$

$\downarrow D = \uparrow S$

$E_p \downarrow \quad E_a$

* Simultaneous Increase in Demand & Decrease in Supply

$\uparrow D > \downarrow S$

$E_p \uparrow \quad E_a \uparrow$

$\uparrow D < \downarrow S$

$E_p \uparrow \quad E_a \downarrow$

$\uparrow D = \downarrow S$

$E_p \uparrow \quad E_a$