

Unit 2

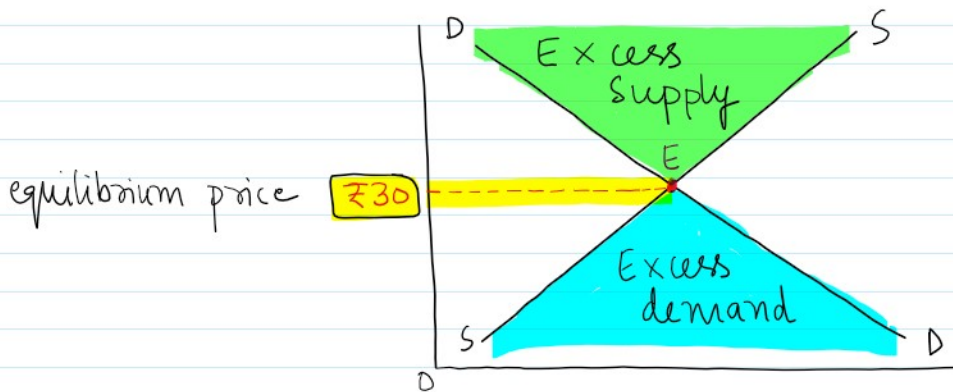
Determination of Price

In general, interaction between demand & supply determines the price

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

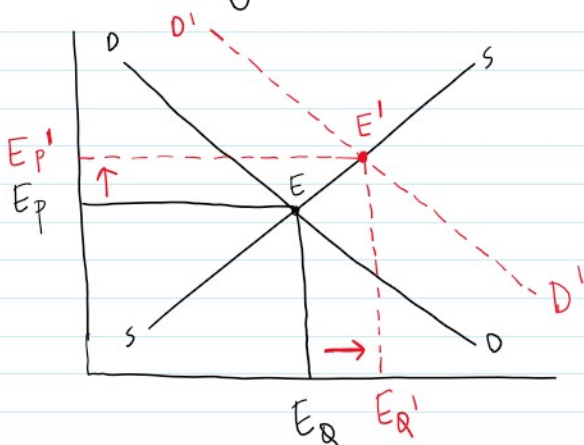
Excess Demand (for ₹ 10, ₹ 20)
 EQUILIBRIUM (for ₹ 30)
 Excess Supply (for ₹ 40, ₹ 50)

E_p →

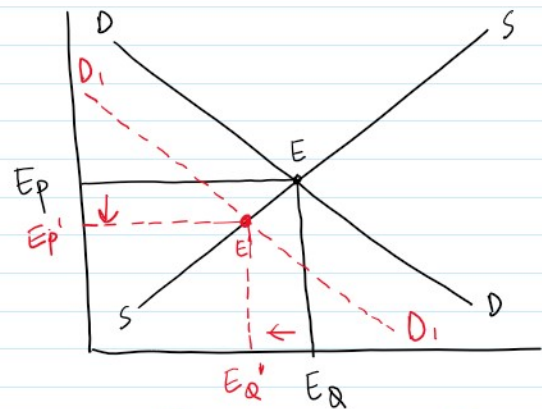


* In some cases, government intervenes and determines the price. (eg Fertilisers, Kerosene etc)

→ **Change in Demand**



Increase in Demand



Decrease in Demand

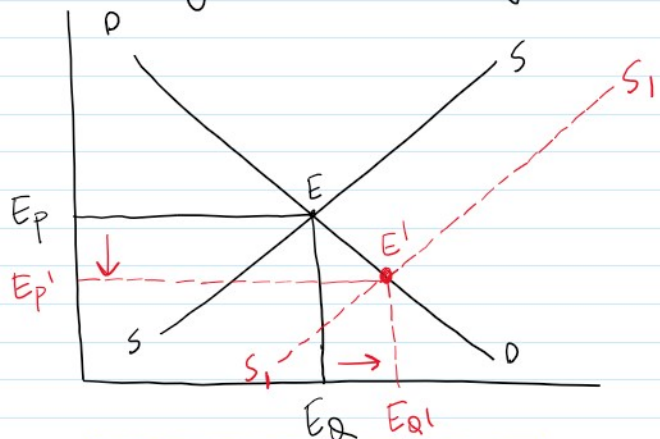
$E_Q \quad E_Q'$
Increase in Demand

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

$E_Q' \quad E_Q$
Decrease in Demand

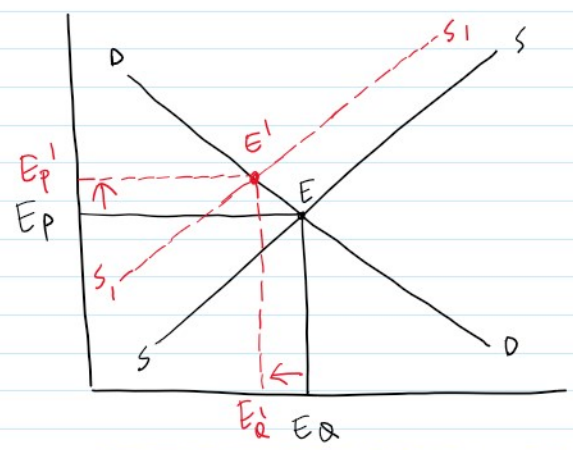
Ans:- $E_P (\downarrow) \quad E_Q (\downarrow)$

* Change in Supply



Increase in Supply

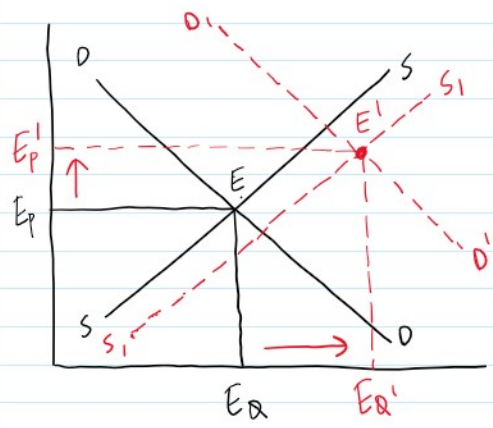
Ans:- $E_P (\downarrow) \quad E_Q (\uparrow)$



Decrease in Supply

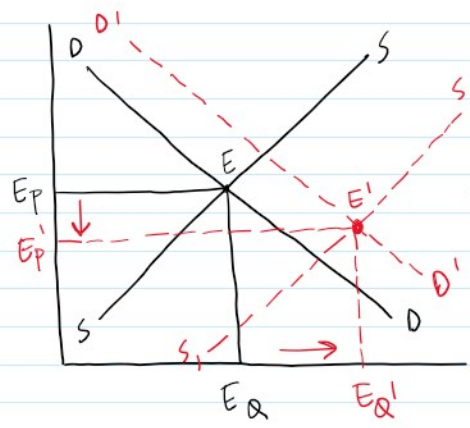
Ans:- $E_P (\uparrow) \quad E_Q (\downarrow)$

* Simultaneous Increase in Demand + Increase in Supply



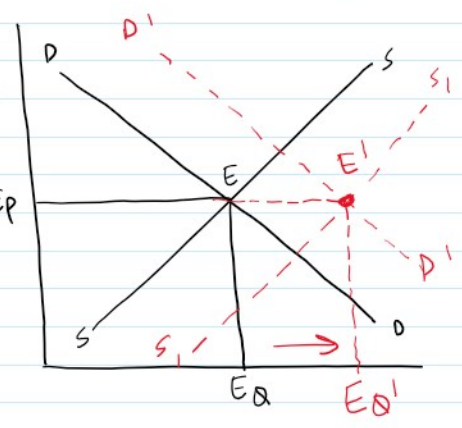
$\uparrow D > \uparrow S$

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

$\downarrow D > \downarrow S$

$E_p \downarrow \quad E_q \downarrow$

$\downarrow D < \downarrow S$

$E_p \uparrow \quad E_q \downarrow$

$\downarrow D = \downarrow S$

$E_p \quad E_q \downarrow$

* Simultaneous Decrease in Demand & Increase in Supply

$\downarrow D > \uparrow S$

$E_p \downarrow \quad E_q \downarrow$

$\downarrow D < \uparrow S$

$E_p \downarrow \quad E_q \uparrow$

$\downarrow D = \uparrow S$

$E_p \downarrow \quad E_q$

* Simultaneous Increase in Demand & Decrease in Supply

$\uparrow D > \downarrow S$

$E_p \uparrow \quad E_q \uparrow$

$\uparrow D < \downarrow S$

$E_p \uparrow \quad E_q \downarrow$

$\uparrow D = \downarrow S$

$E_p \uparrow \quad E_q$