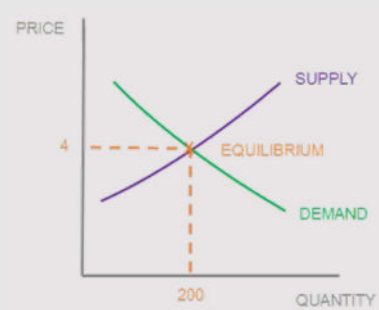
2.4 Price

Key Words

Price	The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.
Worth	How much you value something
Equilibrium	Where the quantity supplied exactly matches the quantity demanded. A state in which the forces of supply and demand are balanced.
Allocation of resources	How scarce resources are distributed among producers and how scarce goods and services are allocated among consumers

How markets allocate resources

Price is the sum of money you must pay for a good or service. It is determined by the interaction of supply and demand.
When the price and quantity of a good or a service are equal, this is called **equilibrium price and quantity**. This is the level that price is set at.

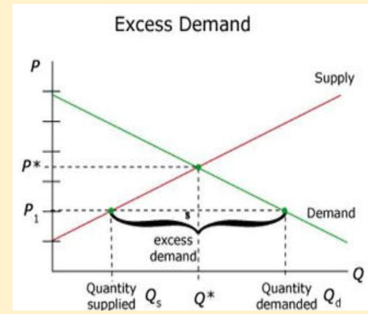


Explain how markets determine the price of a product
Through the interaction of buyers/demand and sellers/supply. By eliminating excess in either demand or supply through raising or lowering prices

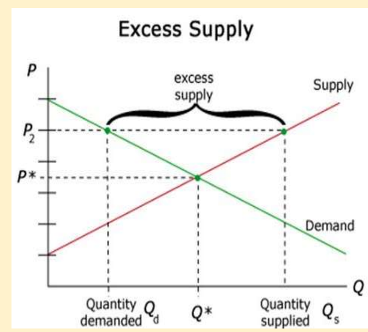
Price is one way of allocating scarce resources.
Prices determine who can afford to buy a good and therefore this allocates scarce resources according to ability to pay.

Price is not always an accurate reflection of worth.
People have many views on the worth of a product as they would be willing to pay different prices for a product. Worth is how much someone values something. However, we must have some way to quantify value.

Excess demand and supply



* is equilibrium. If the low price of P1 is set by producers more consumers will be willing and able to purchase the produce than supplier are will to supply at that level. The increased demand will force prices backup to the market clearing equilibrium price P*.



P* is equilibrium. If the price of P2 is set by producers, consumers will not be willing and able to purchase the produce (i.e. demand less) than suppliers are willing to supply at that level. The surplus supply will force prices down to the market equilibrium P*.

Exam Questions

Quizizz

Video

Specification

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