



MICROECONOMICS - Price Determination

By Kru P'Eve and Kru P'Da Knockout.Economics

Overview

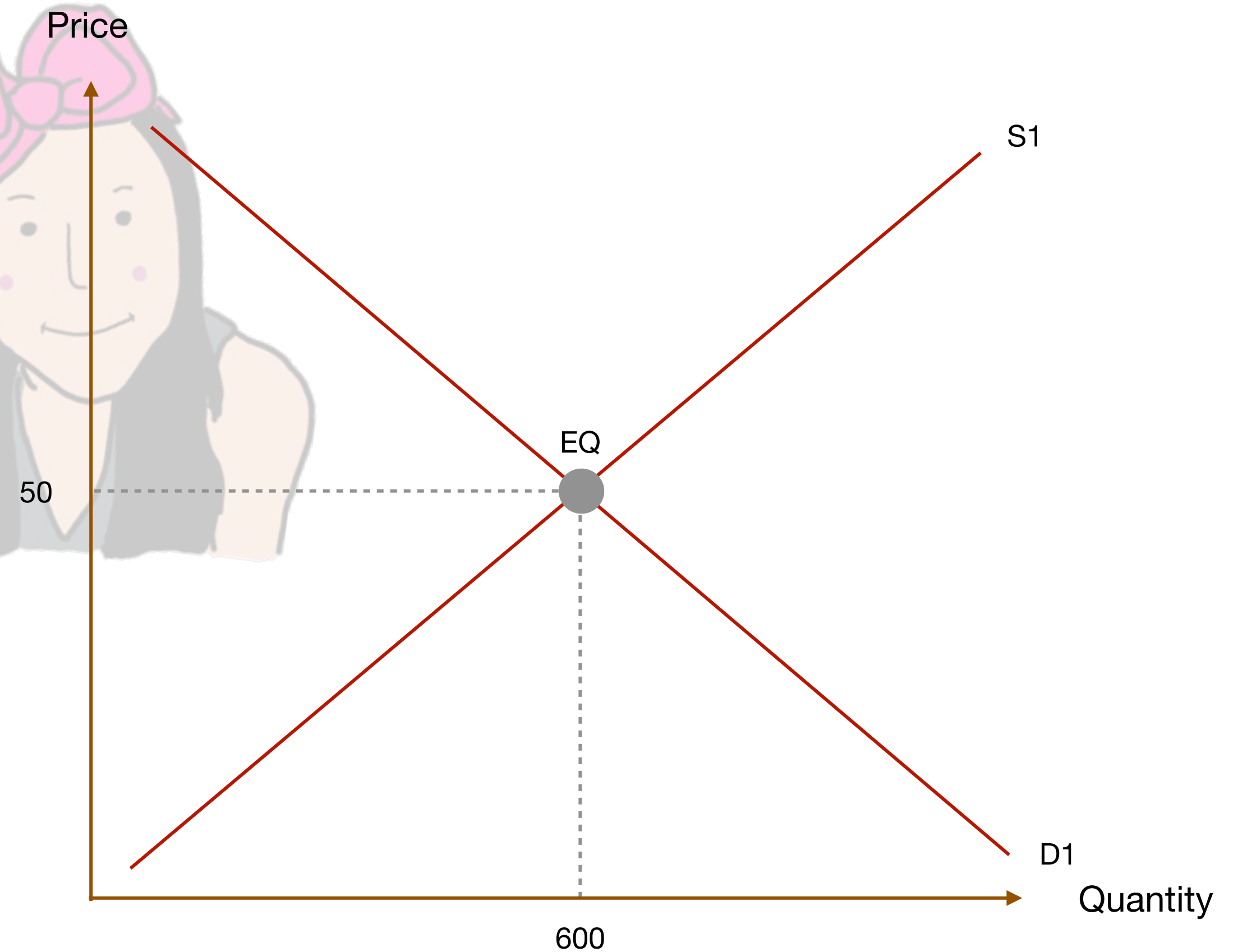
1. Understand how equilibrium price and quantity are determined
2. Understand market disequilibrium and how market forces can remove surplus and shortage



1. Understand how equilibrium price and quantity are determined

- Equilibrium price : the price at which demand and supply are equal.

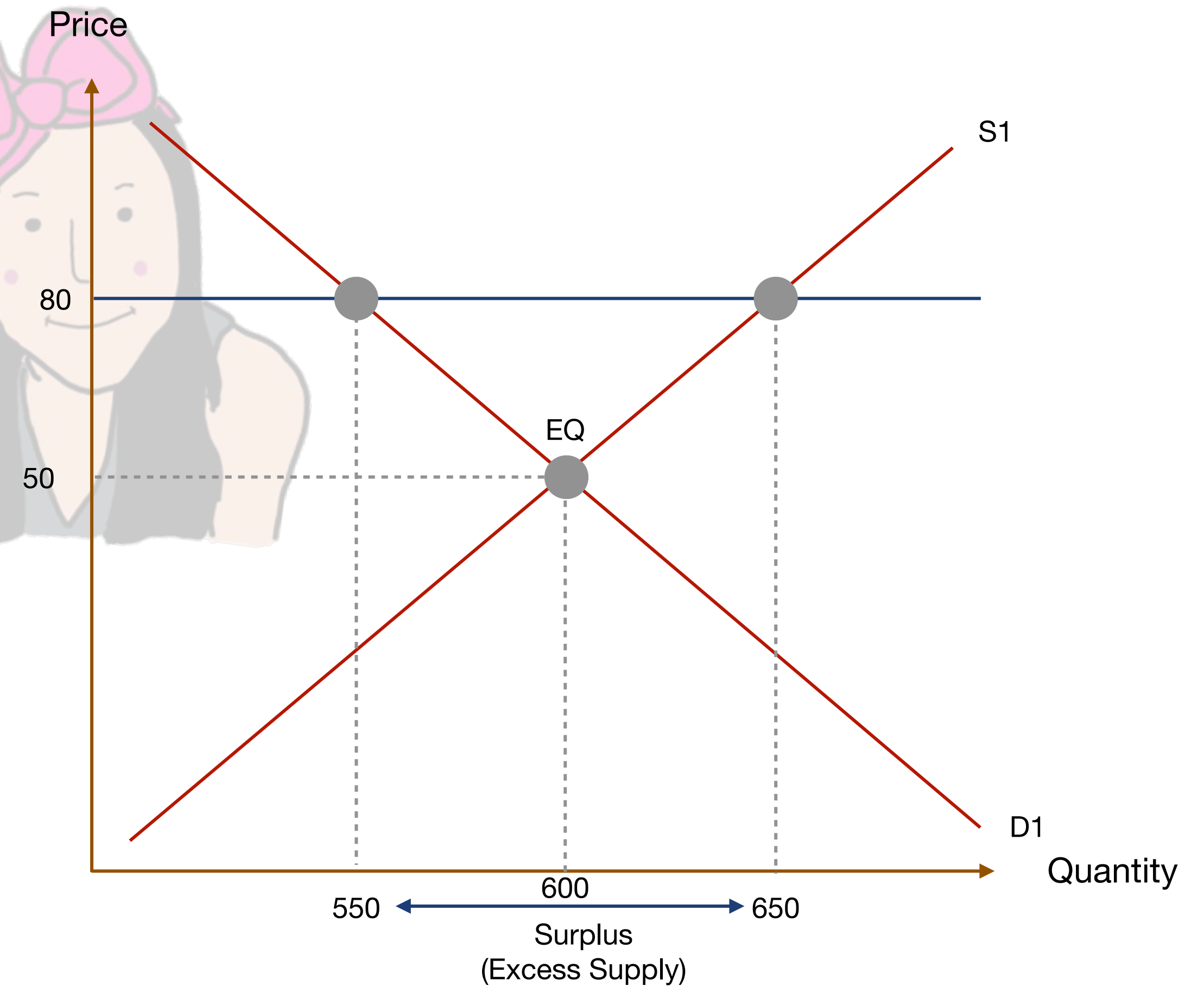
Price (Baht)	Quantity Demanded	Quantity Supplied
100	500	700
80	550	650
50	600	600
30	650	550
10	700	500



2. Understand market disequilibrium and how market forces can remove surplus and shortage

- Disequilibrium price : the price at which demand and supply are not equal.

Price (Baht)	Quantity Demanded	Quantity Supplied
100	500	700
80	550	650
50	600	600
30	650	550
10	700	500

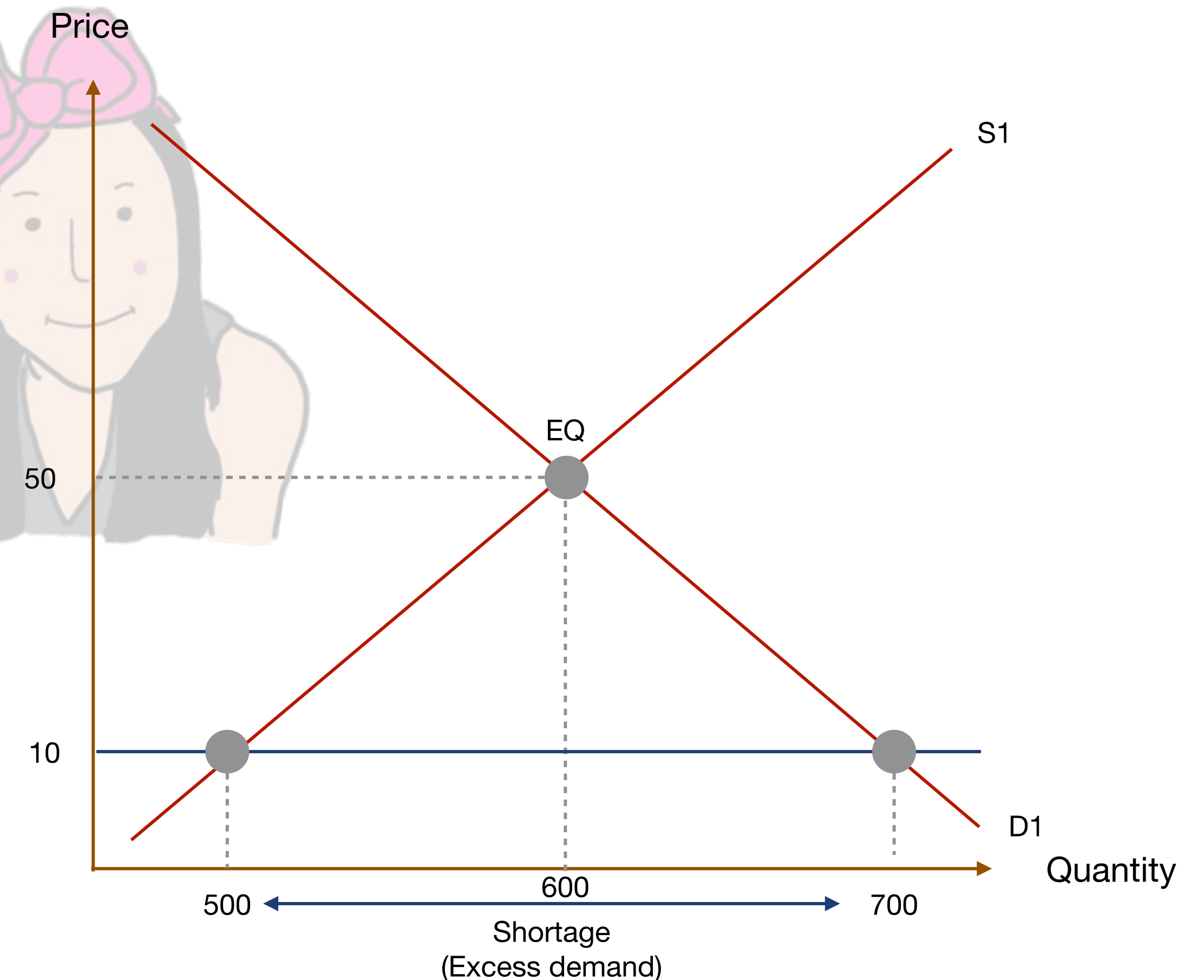


- **Excess supply (Surplus)** : Where quantity supplied is greater than quantity demanded and there are unsold in the market.

2. Understand market disequilibrium and how market forces can remove surplus and shortage

- Disequilibrium price : the price at which demand and supply are not equal.

Price (Baht)	Quantity Demanded	Quantity Supplied
100	500	700
80	550	650
50	600	600
30	650	550
10	700	500



- **Excess demand (Shortage)** : Where quantity demanded is greater than quantity supplied and there are shortage in the market.

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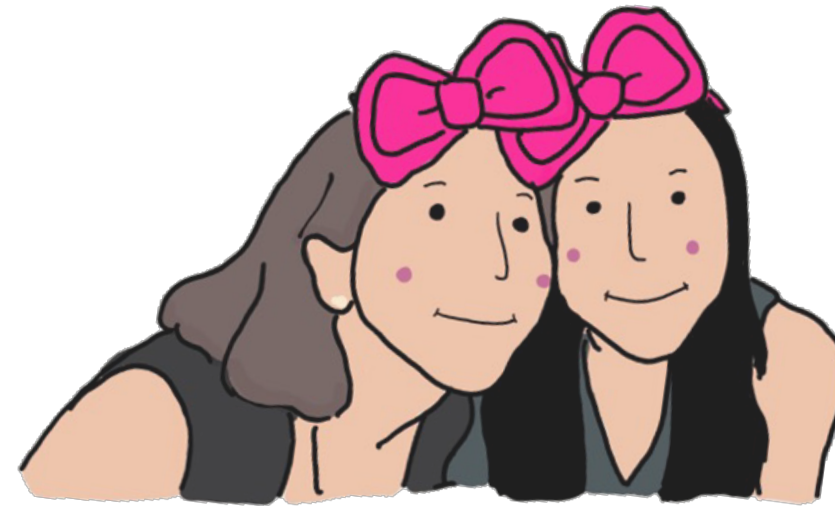
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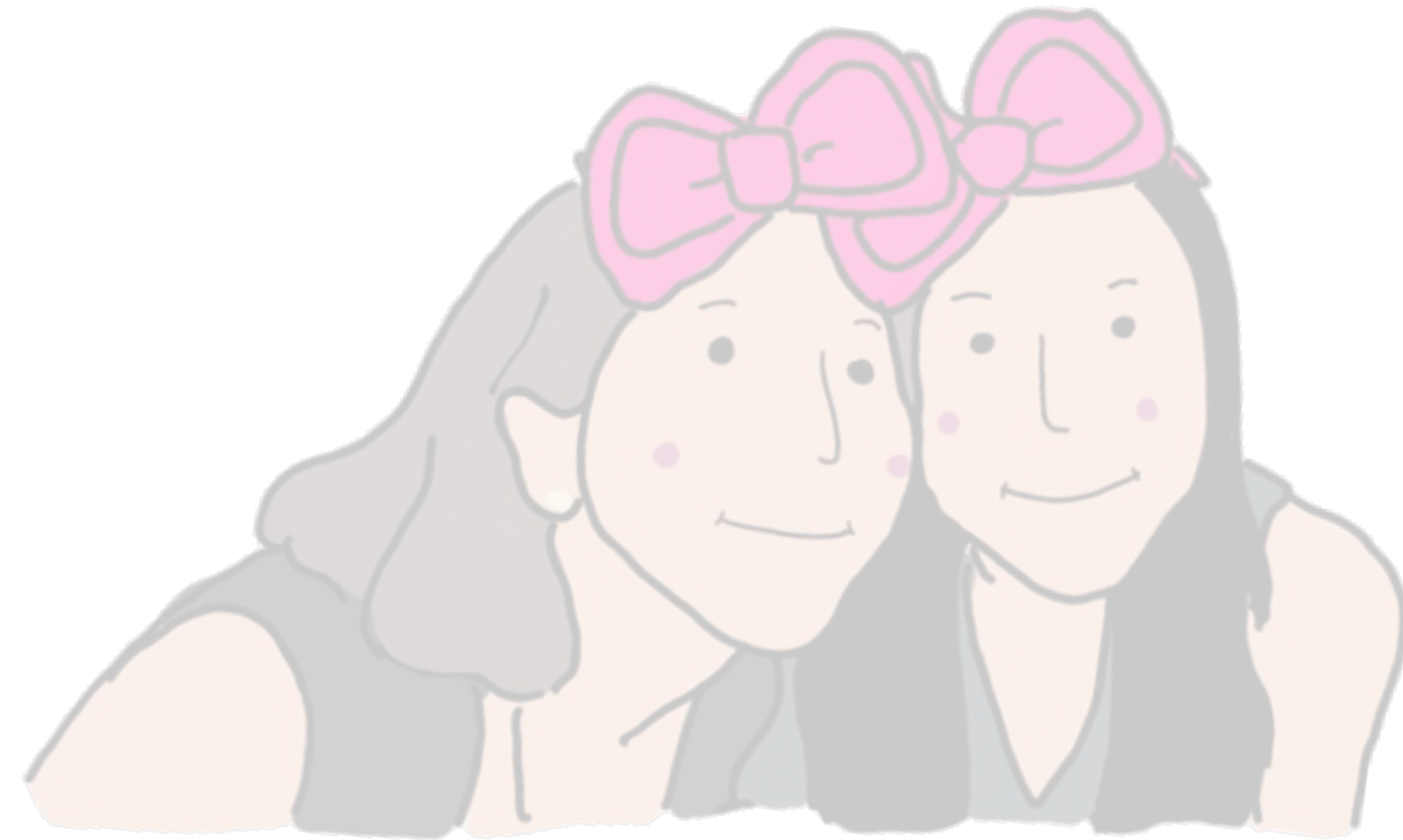


MICROECONOMICS - Price Changes

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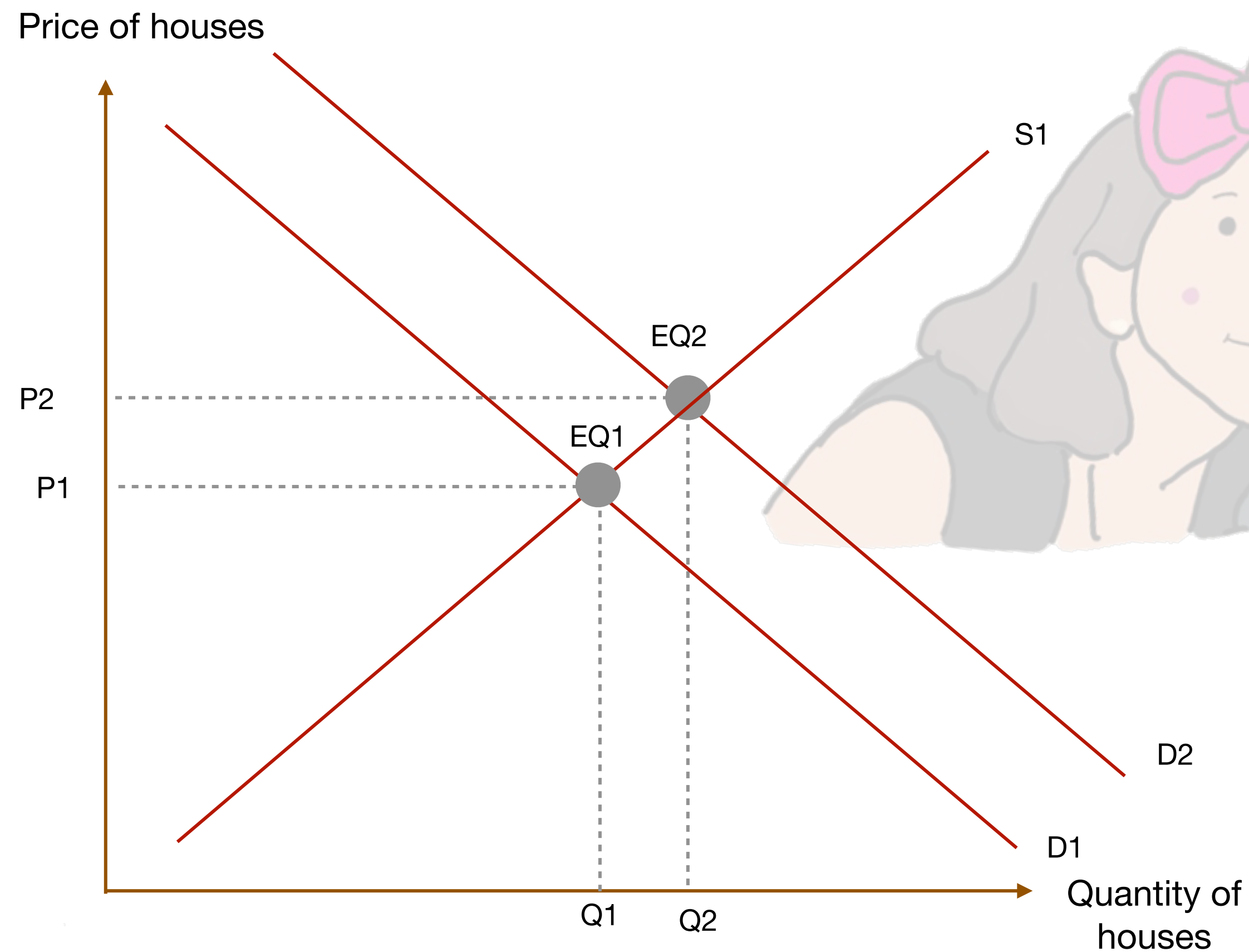
Overview

1. Understand how shifts the demand and supply curves affect equilibrium price



1. Understand how shifts the demand and supply curves affect equilibrium price

1.1 The effect of change in demand



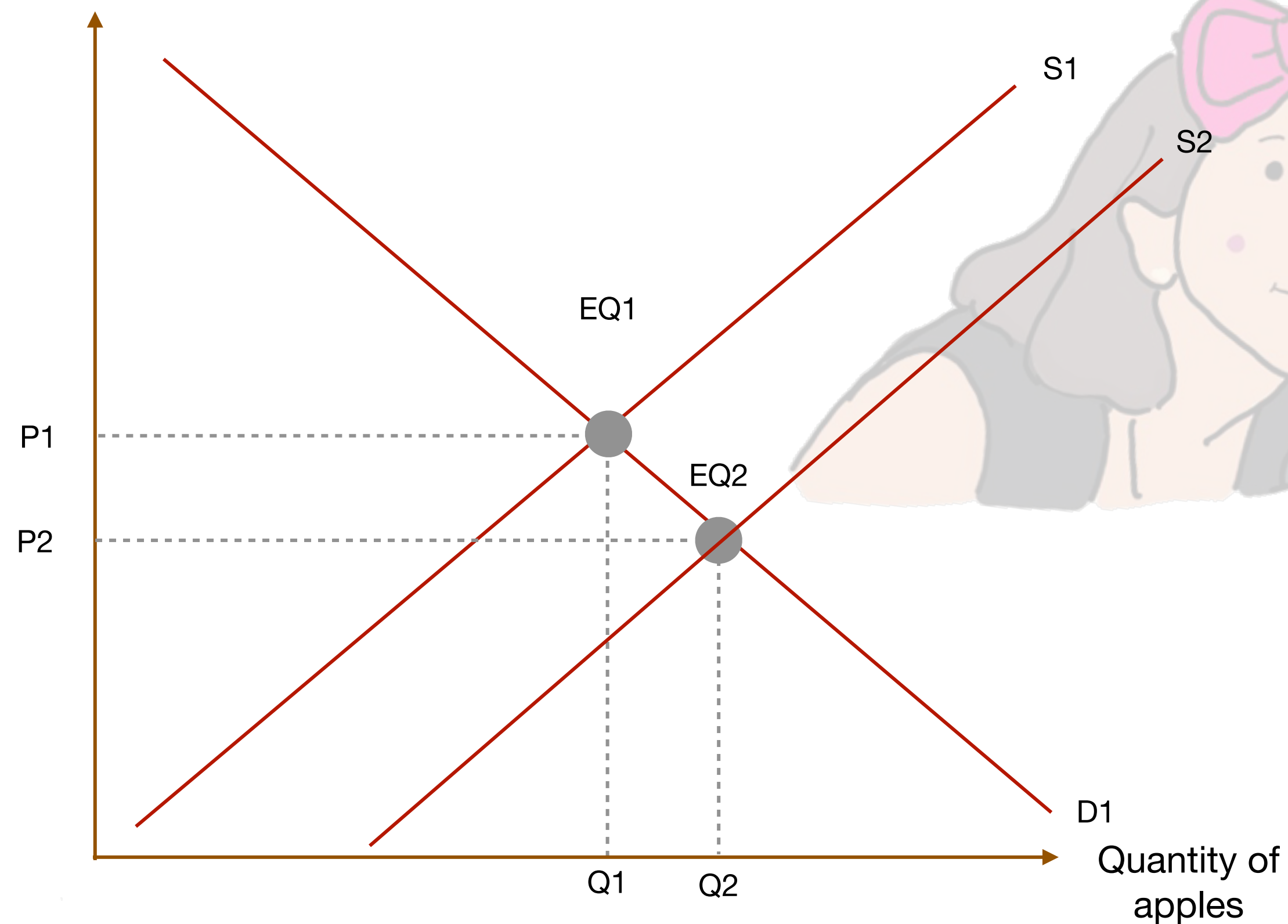
For example : An increase in income on the housing market (normal goods)

1. Origin point EQ1 (P1 and Q1)
2. An increase in income on the housing market, : Higher ability to purchase houses and also there are normal good (is any good for which demand increases when income increases) : Demand curve would shift to the right
3. New EQ2 (Price is forced up from P1 to P2 & Quantity of houses has gone up from Q1 to Q2)

1. Understand how shifts the demand and supply curves affect equilibrium price

1.2 The effect of change in supply

Price of apples



For example : An increase in subsidy from government on an organic apples market

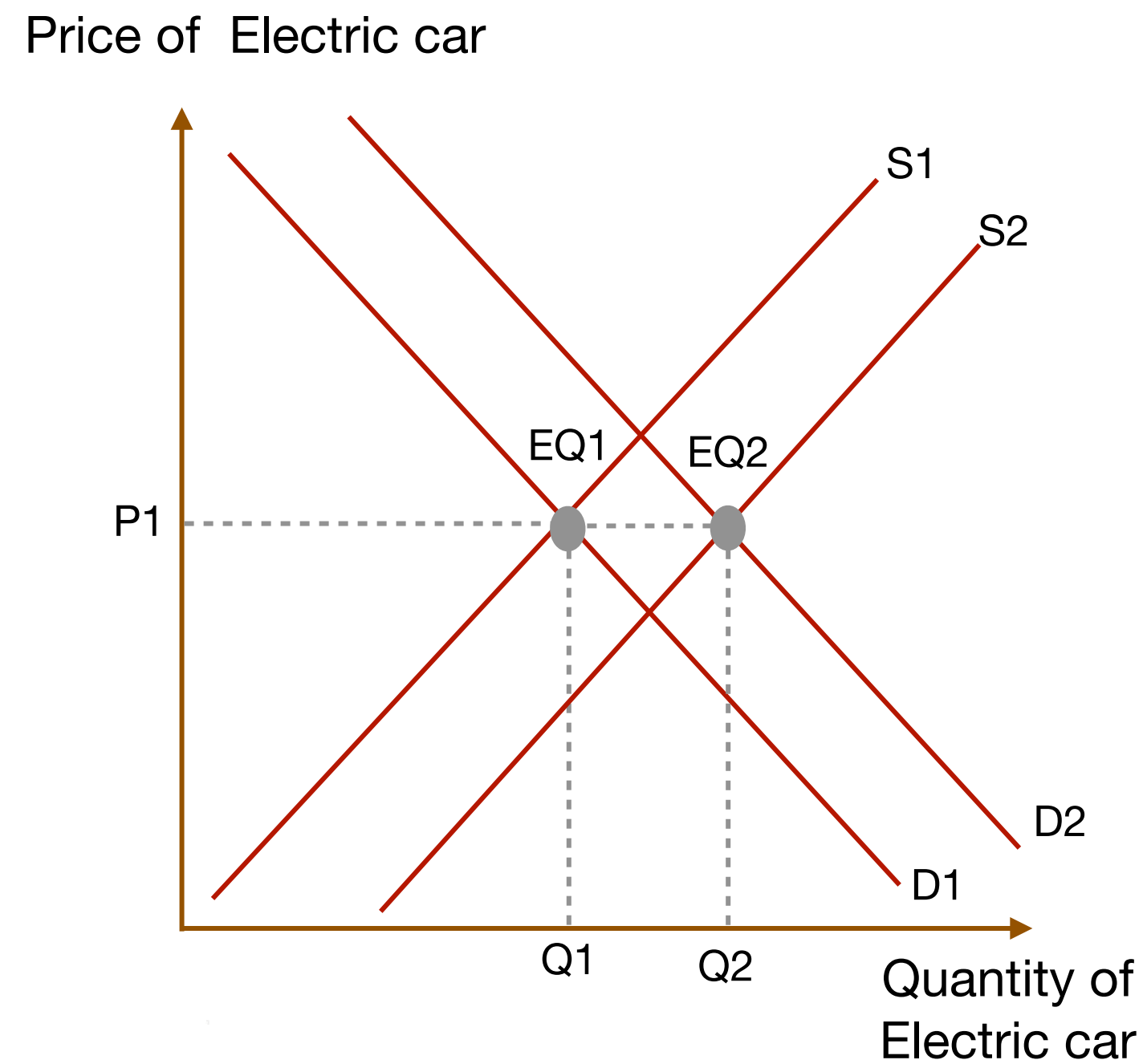
1. Origin point EQ1 (P1 and Q1)
2. An increase in subsidy on an organic apples market, :Subsidy is the grants from government providing to producers : There will be lower cost of production; as a result ; supply curve would shift to the right from S1 to S2
3. New EQ2 (Price is forced down from P1 to P2 & Quantity of apples has gone up from Q1 to Q2)

1. Understand how shifts the demand and supply curves affect equilibrium price

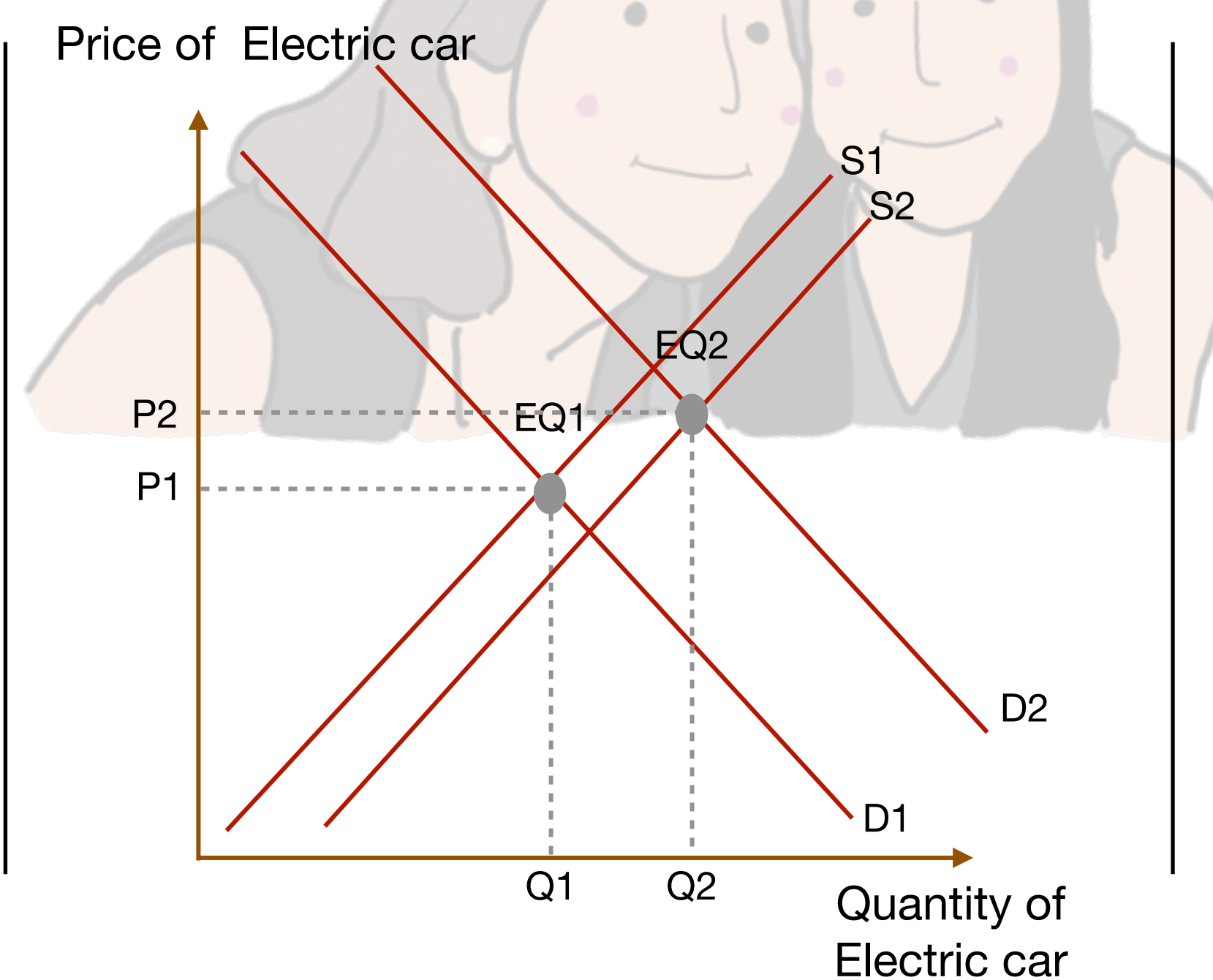
1.3 The effect of change in demand and supply

For example : The government reduced income tax rate while provided subsidy to producers who produce electric car.

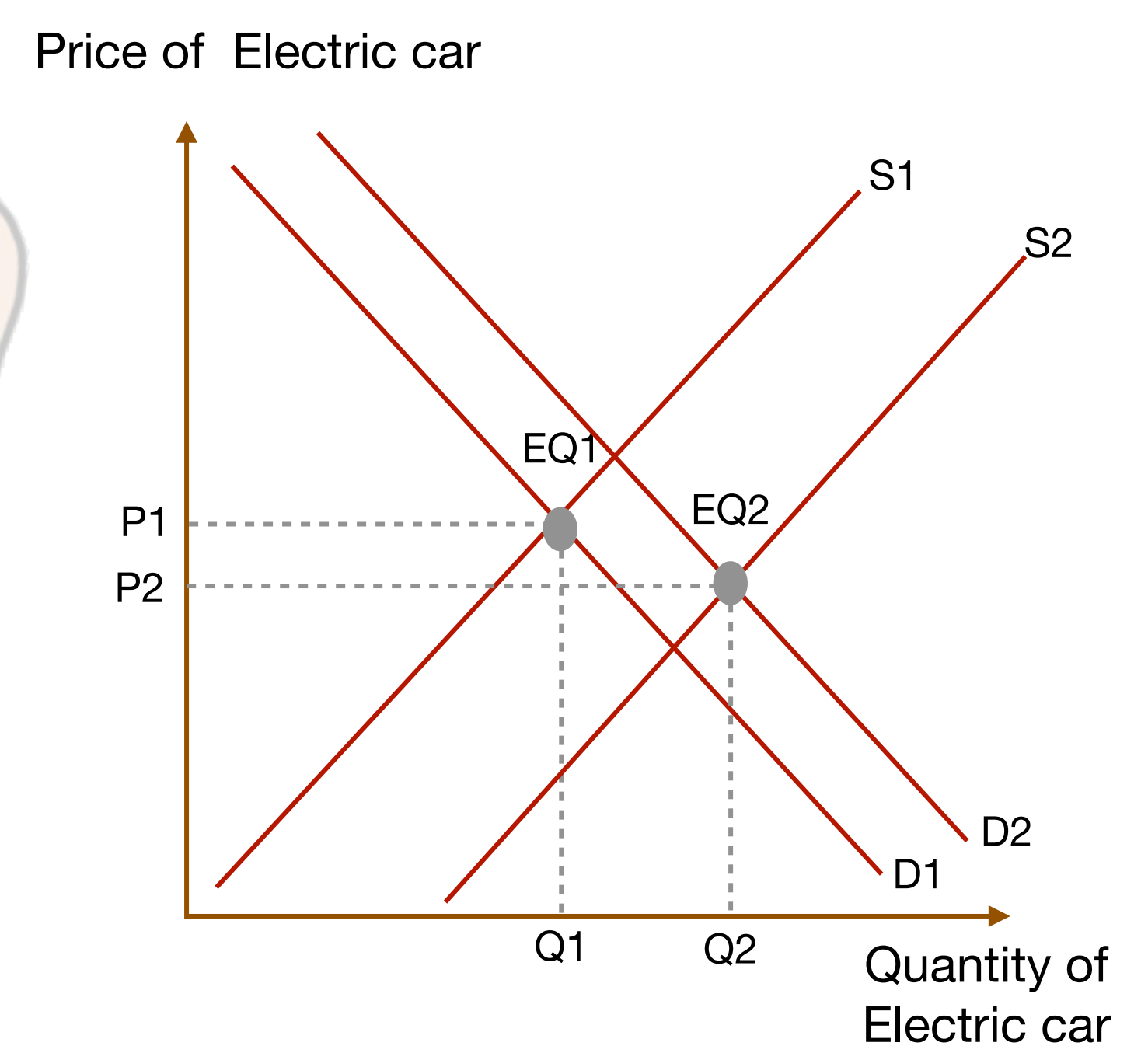
Case 1 : Demand = Supply



Case 2 : Demand > Supply



Case 3 : Demand < Supply



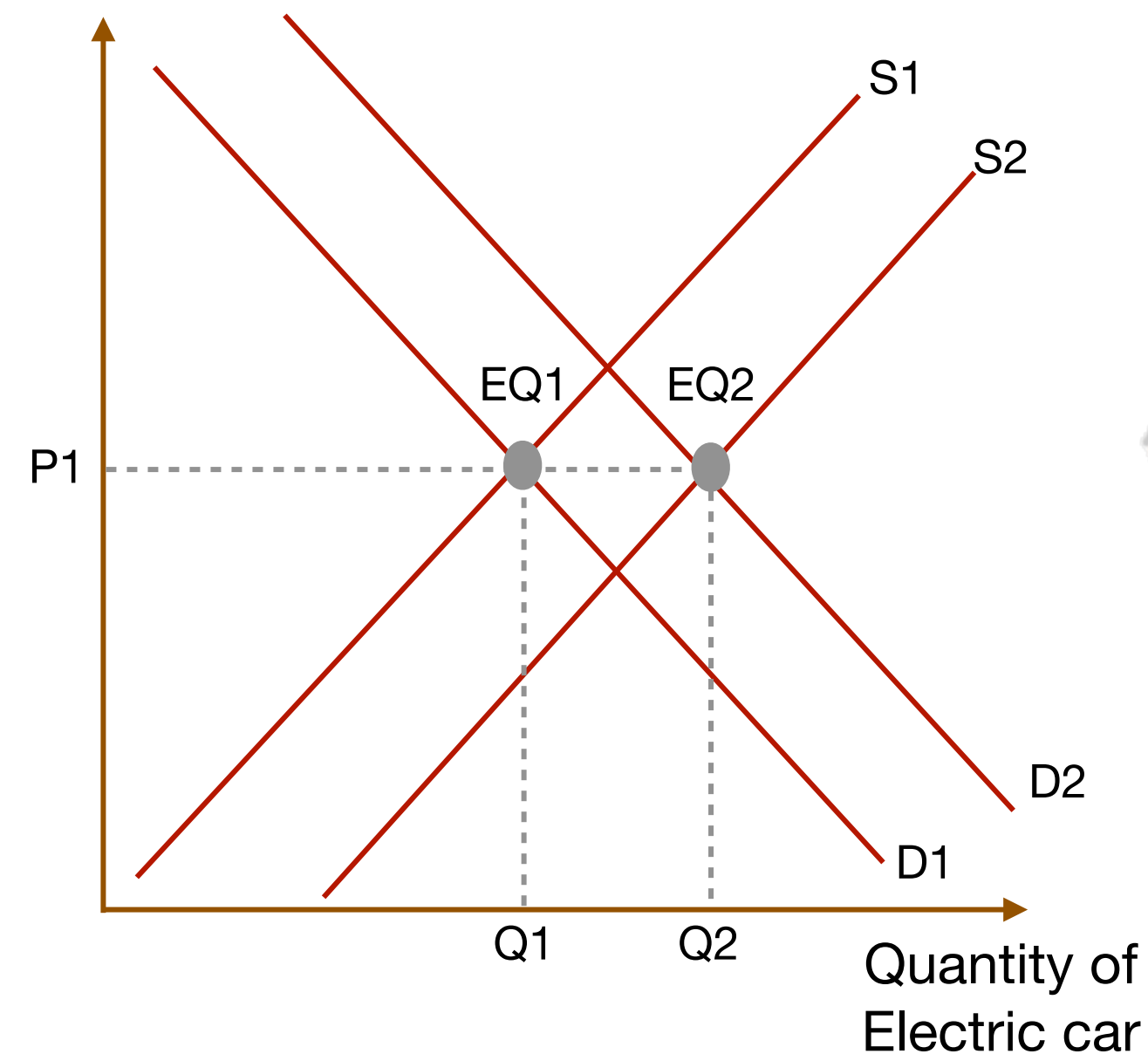
1. Understand how shifts the demand and supply curves affect equilibrium price

1.3 The effect of changes in demand and supply (Continue.)

For example : The government reduced income tax rate while provided subsidy to producers who produce electric car.

Case 1 : Demand = Supply

Price of Electric car



1. Origin point EQ1 (P1 and Q1)

2. The government reduced income tax rate; as a consequence; people had more disposable income.

: People had higher ability to purchase electric car (Normal goods)

: Demand curve would shift to the right from D1 to D2.

: At the same time, subsidy led to lower cost of production

: Supply curve would shift to the right from S1 to S2.

3. New EQ2 (Quantity is forced down from Q1 to Q2 and price stayed the same since a rise in demand equal to a increase in supply)

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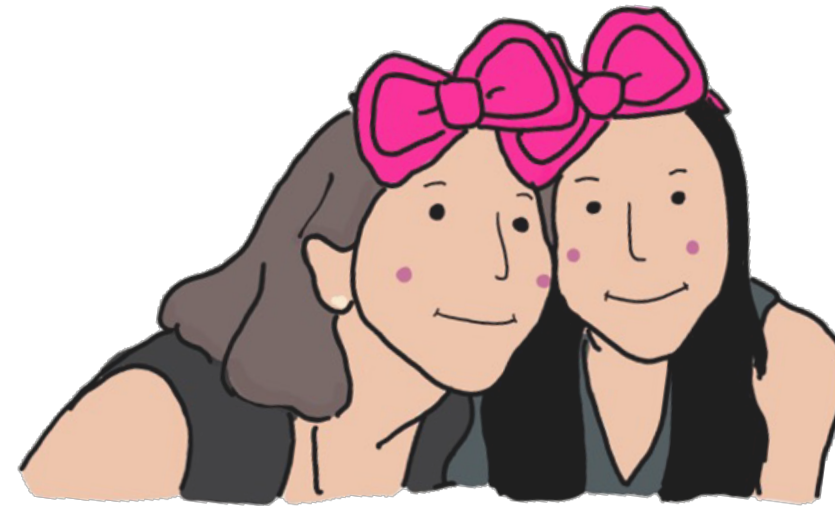
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MICROECONOMICS -

Exercise : Price determination and Price Changes

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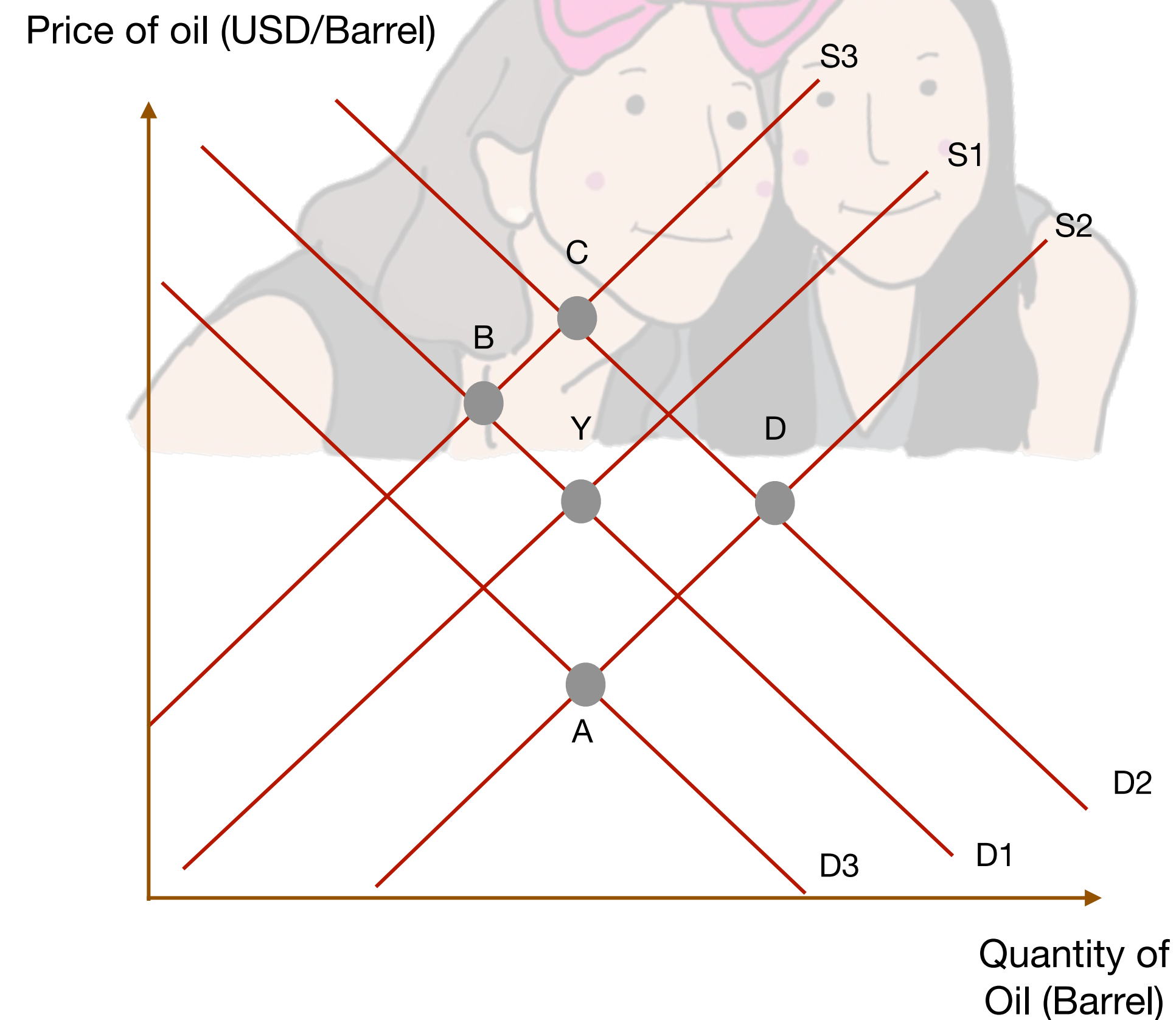
Exercise: MCQ

1. Cold weather in 2020 led to a fall in the sales of swimsuits. To support businesses the government reduced the VAT. How would these situations be shown on a demand and supply diagram for swimsuits?

	Demand Curve	Supply Curve
A	Outward	Inward
B	No change	Outward
C	Outward	No change
D	Inward	Outward

Exercise: MCQ

2. The diagram shows the global market for oil with an equilibrium point of Y. Which point represents the new equilibrium after the discovery of new oil fields and there is rapid global economic growth?



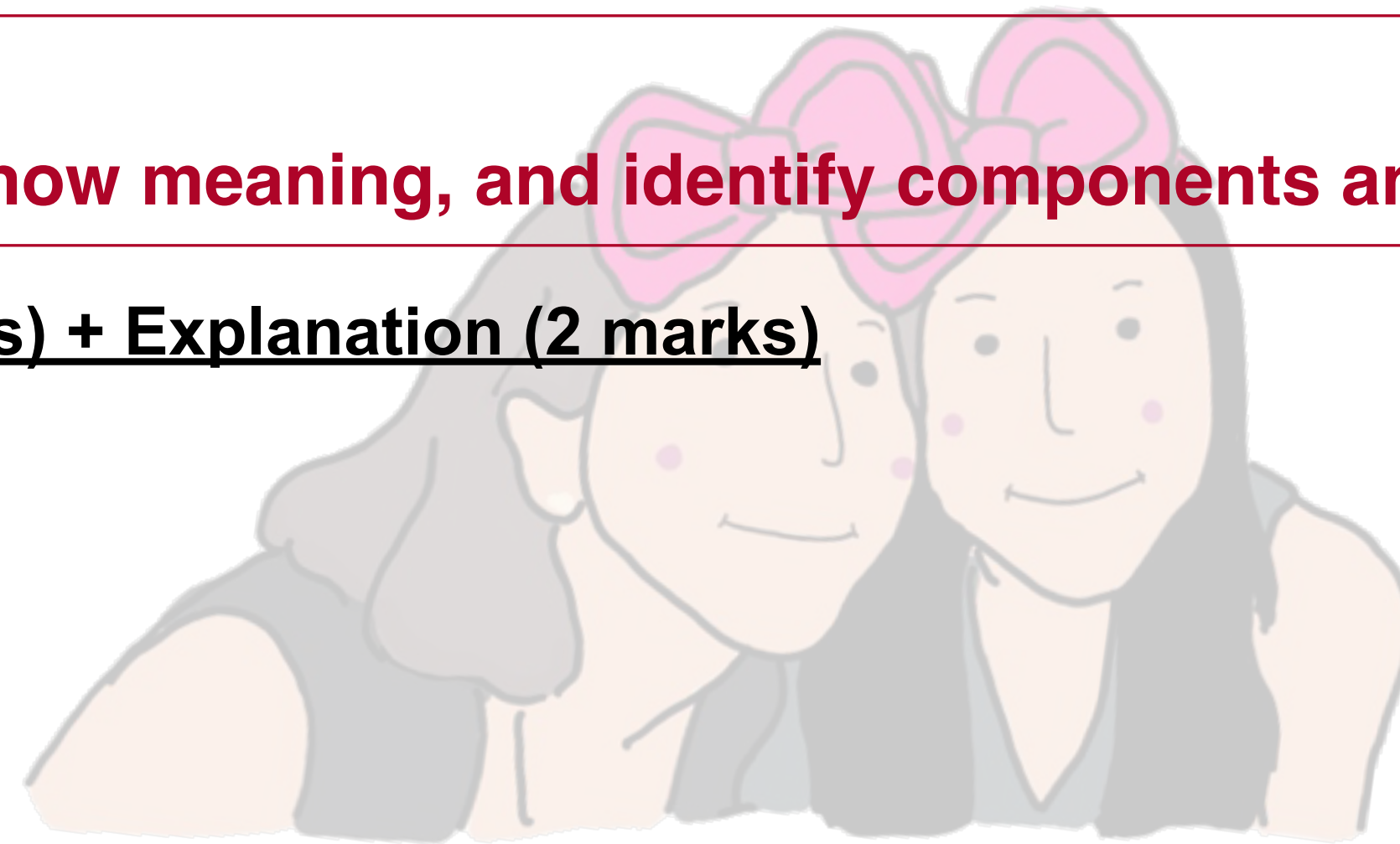
Exercise: Essay

1. Analyse, using a demand and supply diagram, how a fall in the price of milk would affect the market of yogurts [6]

Command Word:

Analyse: examine in detail to show meaning, and identify components and the relationship between them

Knockout Tips: Diagram (4 marks) + Explanation (2 marks)



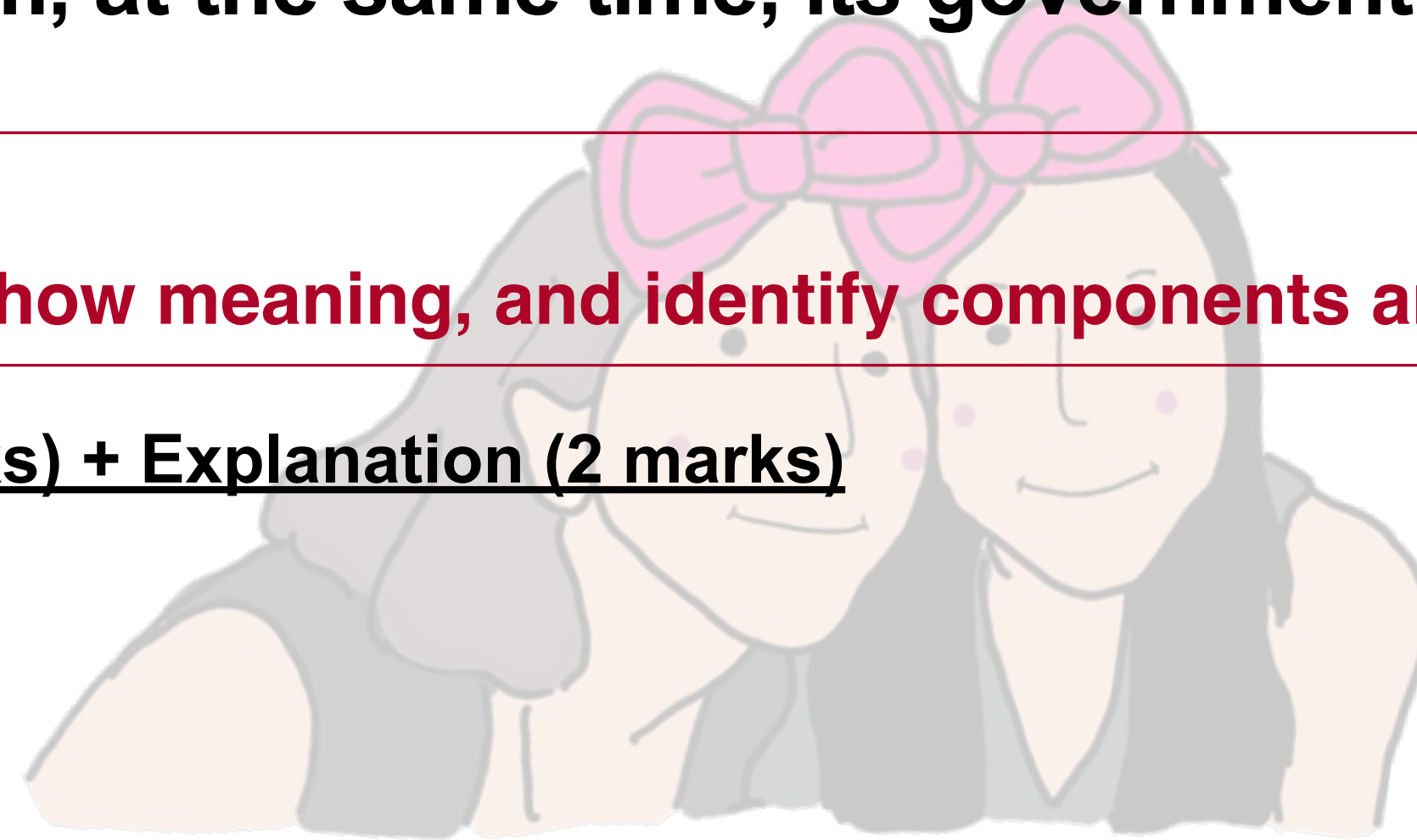
Exercise: Essay

2. Analyse, using a demand and supply diagram, In country A a private firm has build an extra 1,000 units of condominium, at the same time, its government has increased income tax. [6]

Command Word:

Analyse: examine in detail to show meaning, and identify components and the relationship between them

Knockout Tips: Diagram (4 marks) + Explanation (2 marks)



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