



Shortage, Surplus & Equilibrium

Game Rules



- ❖ **Teacher wants to sell snacks to students..**
- ❖ **Teacher will call out the price first. Those who are interested to buy please raise up your hands.**

Game Rules

- ❖ **If the number of hands equals to the number of snacks teacher intended to sell, that would be the deal.**
- ❖ **Students have to pay teacher the price teacher asks for.**
- ❖ **For example, teacher has 3 packs of potato chips here. Each pack of potato chips costs \$10. Then teacher will see who wants to buy it. Teacher will not sell these 3 packs until 3 hands raise up.**

Snack A!



- ❖ Starts with **snack A** and asks for a relatively low price.
- ❖ At this price, the quantity demanded is a lot higher than the quantity I supply! Ok, I will increase the price and see how this affects the quantity demanded.
- ❖ Teacher asks for a relatively high price.
- ❖ It seems that when I increase the price, it reduces the quantity demanded. But it is now less than the quantity I supply. Maybe I should reduce the price a little bit.
- ❖ Teacher keeps adjusting the price until an equilibrium point is reached.

For selling snack A

- ❖ **We started with a relatively low price, the quantity demanded was a lot higher than the quantity teacher supplied.**
- ❖ **A shortage existed.**
- ❖ **Increased the price reduced the quantity demanded but the quantity demanded was less than the quantity teacher supplied.**
- ❖ **We kept adjusting the price until an equilibrium was reached.**

•Teacher recaps with students on the concepts of shortage & equilibrium price and quantity.

Snack B!



- Teacher sells **snack B** and ask for a relatively high price.
- Keep adjusting the price until an equilibrium point is reached.

For selling snack B

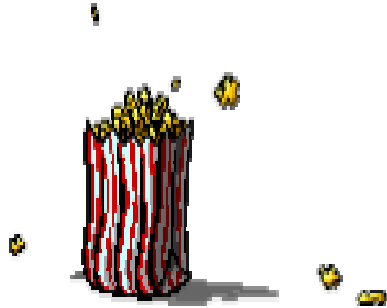
- ❖ **We started with a relatively high price, the quantity demanded was a lot lower than the quantity teacher supplied.**
- ❖ **A surplus existed.**
- ❖ **Lowered the price increased the quantity demanded but the quantity demand was more than the quantity teacher supplied.**
- ❖ **We kept adjusting the price until an equilibrium point was reached.**

•Teacher recaps with students on the concepts of surplus & equilibrium price and quantity.

Snack C

❖ **This time, price cannot be adjusted.**

❖ **How can the shortage problem be solved?**



- Teacher sells snack C and asks for a low price.
- Teacher can facilitate students to discover other methods to solve the shortage problem if the price has to keep unchanged.

Snack D

- ❖ **This time, price cannot be adjusted.**
- ❖ **Are there any other methods to allocate the surplus when the price has to be kept unchanged?**



- Teacher sells snack D and asks for a high price.
- The price cannot be adjusted and teacher should facilitate students to discover other methods to allocate the surplus of the price has to keep unchanged.

Discussion

- ❖ **What happens if the market price is set above the equilibrium price? Can you suggest some ways to solve this problem?**

- ❖ **What happens if the market price is set below the equilibrium price? Can you suggest some ways to solve this problem?**

- ❖ **Just now in the game, the market could freely adjust itself to reach the equilibrium. This is an example of _____?**

•What happens if the market price is set above the equilibrium price? Can you suggest some ways to solve this problem?

•What happens if the market price is set below the equilibrium price? Can you suggest some ways to solve this problem?

•Just now in this game, market can freely adjust to reach its equilibrium. This is an example of _____? (Market economy).

Definitions



❖ Demand

- the amount of goods or services that customers are willing and able to buy at different price levels.

❖ Quantity demanded

- is the amount of that goods or services that a consumer plans to buy during a given time period at a particular price.

Definitions



❖ Supply

- the amount of goods or services that producers are willing and able to sell at different price levels.

❖ Quantity supplied

- the maximum amount that a producer is willing to sell at a given price and in a given condition.

Definitions



❖ **Equilibrium price**

- **is the price at which the quantity demanded equals the quantity supplied.**

❖ **Equilibrium quantity**

- **is the quantity bought and sold at the equilibrium price.**

Definitions



❖ Surplus

- a situation in which quantity supplied is more than quantity demanded

❖ Shortage

- a situation in which quantity demanded is more than quantity supplied.



The End!