



Q1. Explain market equilibrium.

Ans: Market equilibrium is defined as the state of rest that is determined by the rational objectives of the consumers and the producers (i.e. maximization of satisfaction and profit respectively). It is a state where the aggregate quantity that all the firms want to sell are purchased by consumers, i.e. market supply equals market demand. At this situation, there is no incentive or a tendency for any change in quantity demanded, quantity supplied and price. That is:

$$y^d = y^s$$

Q2. When do we say that there is an excess demand for a commodity in the market?

Ans: When the market demand exceeds the market supply at a particular price, then the situation that arises is excess demand. In other words, if at any price, the producers are willing to supply comparatively less than what is demanded by all the consumers in the market, then we face the situation of excess demand.

Q3. When do we say that there is an excess supply for a commodity in the market?

Ans: Excess supply is a situation when the supply of a commodity in the market exceeds its demand at a particular price. In other words, if at any price level, all the consumers demand comparatively less quantity than what is being supplied by all the suppliers, then we face the situation of excess supply.

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