

CASE 3 Decrease in Demand & Increase in Supply

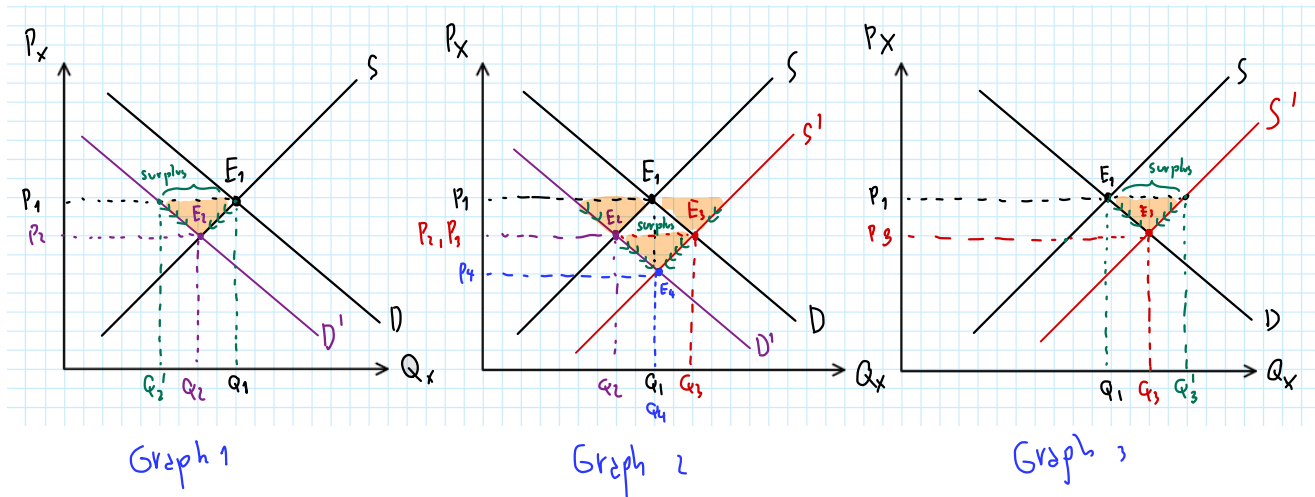
Consider Market for jewelry shop

EVENT 1 (On Demand Side)

buyers' income decrease.

EVENT 2 (On Supply Side)

the technology of jewelry production is better



Full Explanation

Graph 1: When buyers' income decrease, the demand curve for jewelry will shift to the left. from $D \rightarrow D'$. From the price (P_1), it will be excess supply ($Q_1^S > Q_1^D$) or surplus. To get rid of unsold, sellers need to decrease the price ($P_1 \rightarrow P_2$) to rise the quantity demanded and drop the quantity supplied ($Q_2' \rightarrow Q_2 \leftarrow Q_1$) until meet Q_2 or new equilibrium ($E_1 \rightarrow E_2$) which has no excess. at P_2

Graph 3: When the technology of jewelry production is better, the supply curve for jewelry shifts to the right from $S \rightarrow S'$. From the price (P_1), it will be excess supply ($Q_1^S > Q_1^D$) or surplus. To get rid of unsold, sellers need to decrease the price ($P_1 \rightarrow P_3$) to rise the quantity demanded and drop the quantity supplied ($Q_1 \rightarrow Q_3 \leftarrow Q_1^S$) until meet Q_3 or new equilibrium ($E_1 \rightarrow E_3$) which has no excess. at P_3 .

Graph 2: When we combined graph 1 & 3 together we will get graph 2 which shows the decrease in demand and increase in supply. At price point ($P_{2,3}$) shows excess supply or surplus ($Q_2^S > Q_2^D$) or ($Q_3 > Q_2$). To get rid of unsold, sellers need to decrease the price which will attract buyers. ($P_{2,3} \rightarrow P_4$) until the quantity meet the Q_4 point **5 of 5** (the same level of quantity in the E_1 equilibrium) and change to E_4 equilibrium at P_4 .

CASE 4 Increase in Demand & Decrease in Supply

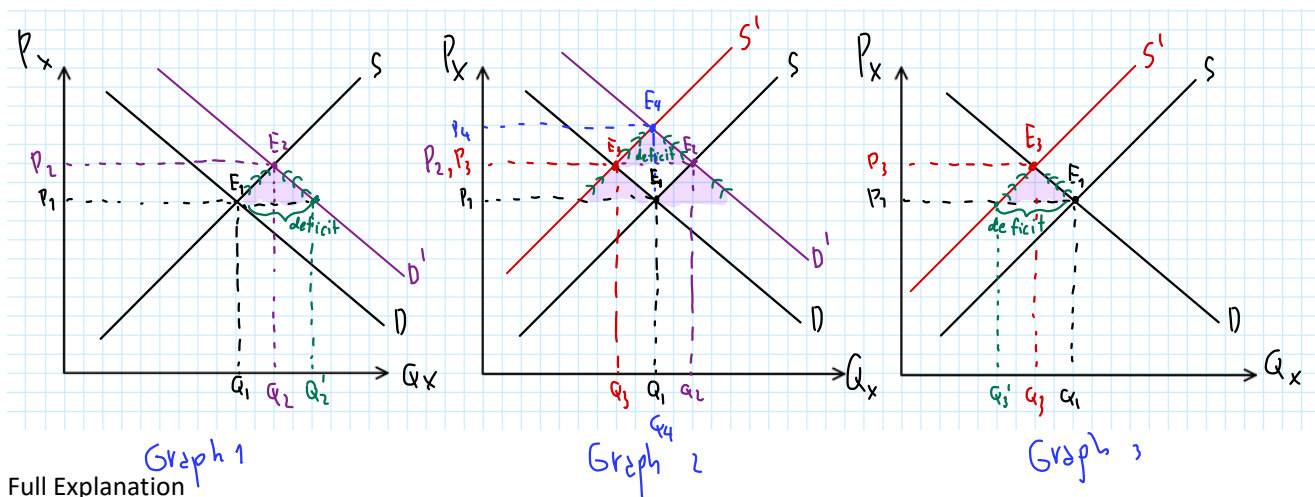
Consider Market for Coffee shop.

EVENT 1 (On Demand Side)

More buyers interesting in coffee in the market.

EVENT 2 (On Supply Side)

The coffee shop are closing because of the price increased in raw materials.



Full Explanation

Graph 1: when more buyers in the market, the demand curve for coffee shifts to the right from $D \rightarrow D'$. From the price (P_1), it will be excess demand or deficit ($Q^D > Q^S$) ($Q_1' > Q_1$). To get rid of deficit, sellers need to rise the price (price adjustment) from $P_1 \rightarrow P_2$ so it affect the quantity demanded to drop and rise the quantity supplied ($Q_1 \rightarrow Q_2 \leftarrow Q_1'$) to the point Q_2 and change equilibrium from $E_1 \rightarrow E_2$ which has no excess at P_2 .

Graph 3: when raw materials are more expensive, the supply curve for coffee will shift to the left.

from $S \rightarrow S'$. From the price (P_1), it will be excess demand ($Q^D > Q^S$) or deficit. To get rid of deficit, Sellers need to increase the price ($P_1 \rightarrow P_2$) to drop the quantity demanded and rise quantity supplied ($Q_1' \rightarrow Q_2 \leftarrow Q_1$) until meet Q_2 or new equilibrium ($E_1 \rightarrow E_2$) which has no excess at P_2 .

Graph 2: when we combined graph 1 & 3 together, we will get graph 2 which shows the inc. in demand and dec. in supply. At price P_2 , it shows the excess demand or deficit ($Q^D > Q^S$) ($Q_2 > Q_3$). To get rid of deficit, sellers need to increase the price from $P_2 \rightarrow P_4$ which will drop quantity demanded and increase quantity supplied ($Q_2 \rightarrow Q_1 \leftarrow Q_3$) change equilibrium $E_1 \rightarrow E_2$ at price point P_4 .