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CASE 1 Decrease in Demand & Decrease in Supply

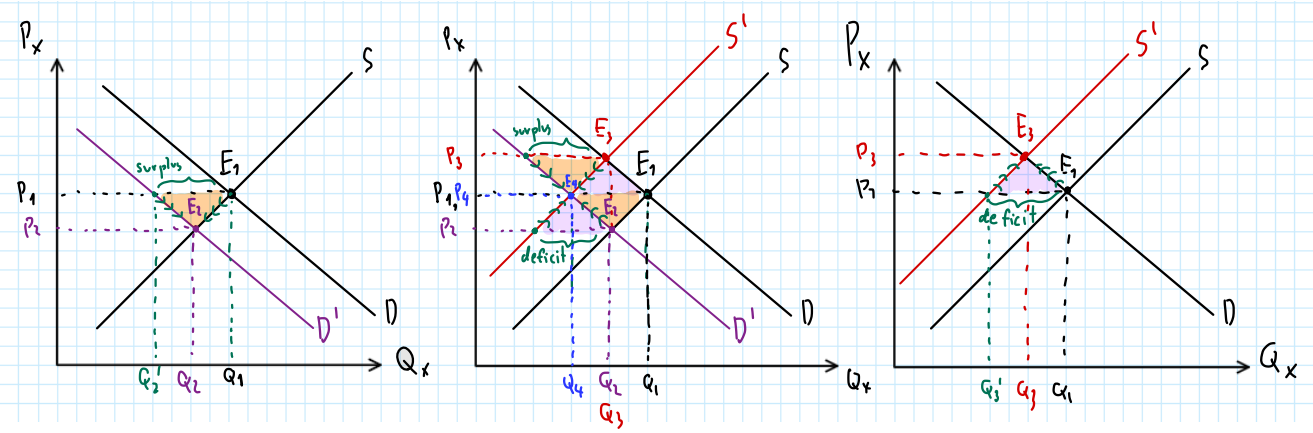
Consider Market for bakery store.

EVENT 1 (On Demand Side)

Buyers think that the taste of the bread is worse than before

EVENT 2 (On Supply Side)

Sellers are struggle with the temperature controlled machine which made the bread has mold quicklier.



Full Explanation

Graph 1: when buyers think the taste of bread is change, the demand curve for bread will shifts to the left. from $D \rightarrow D'$. From the price (p_1), it will be excess supply ($Q^S > Q^D$) ($Q_1 > Q_2'$) or surplus. To get rid of unsold, sellers need to decrease the price ($p_1 \rightarrow p_2$) (price adjustment) 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 sellers are struggle with machine, the supply curve for bread will shifts to the left. from $S \rightarrow S'$. From the price (p_1), it will be excess demand ($Q^D > Q^S$) ($Q_1 > Q_3'$) or deficit. To get rid of deficient, Sellers need to increase the price ($p_1 \rightarrow p_3$) (price adjustment) to drop the quantity demanded and rise quantity supplied ($Q_3' \rightarrow Q_3 \leftarrow Q_1$) 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 decrease in supply. At quantity $Q_{2,3}$, it shows the surplus on point p_3 and deficit on point p_2. To solve these 2 problems, we need to find the middle price which is point p_4. (price adjustment) It is the same level of the price (p_1) in the begining. The quantity drop from $Q_{2,3} \rightarrow Q_4$ and change the E_1 to E_4 at price p_4 (or p_1)

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CASE 2 Increase in Demand & Increase in Supply

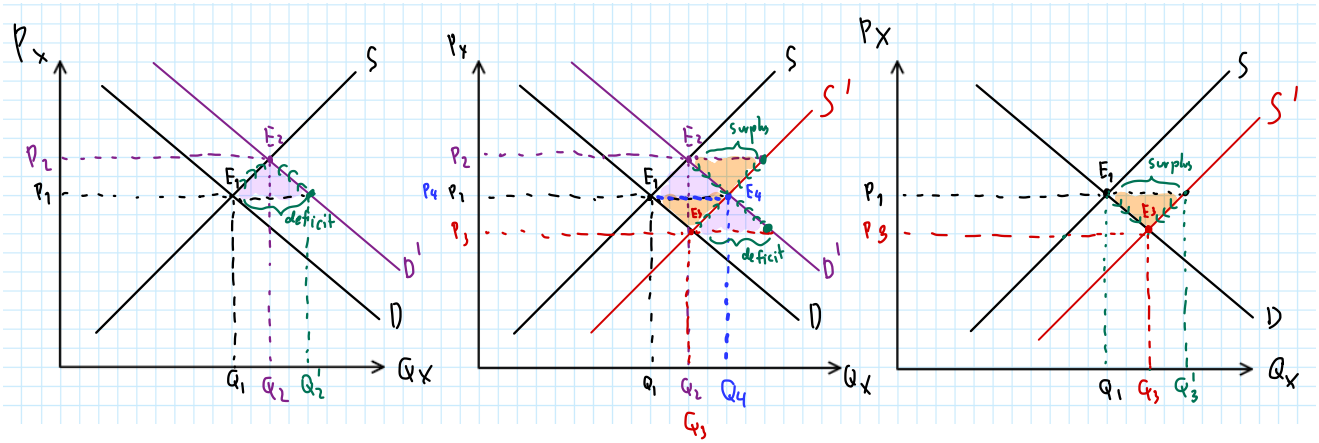
Consider Market for clothing store

EVENT 1 (On Demand Side)

Buyers are obsess with the new trend. (more buyers in the market)

EVENT 2 (On Supply Side)

The number of sellers in the market is more



Graph 1 Graph 2 Graph 3

Full Explanation!

Graph 1 : when buyers obsess with the new trend, the demand curve for cloth shifts to the right from D → D'. From the price (P_1), it will be excess demand or deficit ($Q^D > Q^S$) ($Q_2' > Q_1$). To get rid of deficient, 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 ($Q_1 \rightarrow Q_2 \leftarrow Q_2'$) to the point Q_2 and change equilibrium from $E_1 \rightarrow E_2$ which has no excess at P_2.

Graph 3 : When numbers of sellers in market is more, the supply curve for cloth shifts to the right from $S \rightarrow S'$. From the price (P_1), it will be excess supply ($Q^S > Q^D$) ($Q_3' > Q_1$) or surplus. To get rid of unsold, sellers need to decrease (price adjustment) the price ($P_1 \rightarrow P_3$) to rish the quantity demanded and drop the quantity supplied ($Q_1 \rightarrow Q_3 \leftarrow Q_3'$) 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 increase in demand and increase in supply. we need at quantity $Q_{2,3}$, it shows the surplus on point P_2 and deficit on point P_3. to find the mid-price on point P_4 which is the same level as P_1 (begining price) but rise in quantity from $Q_{2,3} \rightarrow Q_4$ and equilibrium change to $E_1 \rightarrow E_4$ at price P_4.