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Balancing Act: Market Equilibrium and the Dance of Supply and Demand

Have you ever wondered why the prices of products seem to stay the same for a while and then change? Or how businesses decide how much of a product to produce? It's all about finding the right balance in the market, and that balance is called "market equilibrium." In this exciting reading passage, we'll uncover what market equilibrium is and how it's determined by the interplay of supply and demand.

Understanding Market Equilibrium

Imagine you're at a school dance. The DJ plays a mix of fast and slow songs. When the dance floor is packed, it means everyone's having fun. The same idea applies to the market.

Definition of Market Equilibrium: Market equilibrium is a state where the quantity of a product supplied by producers matches the quantity demanded by consumers. In simpler terms, it's when the right amount of a product is available at a price that both buyers and sellers are happy with.

The Role of Supply and Demand

To understand market equilibrium, we need to explore the roles of supply and demand.

- **Supply:** Supply is the quantity of a product that producers are willing to make and sell at different prices. When prices are high, producers are motivated to supply more. When prices drop, they may supply less.
- **Demand:** Demand is the quantity of a product that consumers are willing to buy at different prices. When prices are low, consumers want more. When prices rise, they may buy less.

The Dance of Supply and Demand

Imagine a seesaw. On one side, you have supply, and on the other, you have demand. Market equilibrium happens when these two forces balance each other out.

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- **Equilibrium Price:** This is the price at which the quantity supplied equals the quantity demanded. It's like the DJ finding the perfect song that keeps everyone on the dance floor.
- **Equilibrium Quantity:** This is the quantity of the product that is bought and sold at the equilibrium price. It's like the number of people dancing happily to the same song.

How Market Equilibrium Works

Let's break it down step by step:

- **Initial Situation:** Imagine the initial price of a popular video game is \$50, and 1,000 people are willing to buy it at that price. Producers are also willing to supply 1,000 copies at this price.
- **Change in Demand:** If a new trailer for the game generates a lot of excitement, more people want to buy it. Demand goes up, and consumers are now willing to pay \$60 for the game. But producers are still supplying only 1,000 copies.
- **Result:** Since demand is higher than supply, the price starts to rise until it reaches equilibrium. In this case, it might settle at \$55. At this price, 1,000 people are willing to buy, and 1,000 copies are available.
- **Change in Supply:** Now, imagine a discount on video game consoles makes it cheaper to produce games. Producers can now supply 1,200 copies at the same price of \$55.
- **Result:** With supply exceeding demand, the price starts to fall until it reaches equilibrium. The price might settle at \$53, and 1,200 copies are sold.

