

chapter - 9
The Price Puzzle & what Drives
the market

I. Answer the following:

1. What is equilibrium price in a market?

Equilibrium price is the price at which quantity demanded equals quantity supplied.

At this level, there is neither surplus nor shortage, and market forces of demand and supply are balanced.

2. "Consumers expect a price rise next month. Explain how this expectation affects current demand."

If consumers expect higher future prices, current demand rises as buyers purchase in advance.

This shifts the demand curve right, increasing equilibrium price and quantity. In the present, for example, anticipated fuel price hikes lead to higher current purchases, illustrating how expectation influences market behavior.

3. Explain the law of demand and law supply using real life example of rice and smartphone

The Law of demand states that *ceteris paribus* when price falls, quantity demand rises

For example: If the price of rice decreases, more consumers buy it

Conversely, the law of supply states that higher prices induce producers to supply more.

For instance, smartphone manufacturers increase production when market price rise.

These laws illustrate the negative relationship between price and demand and the positive relation between price and supply

The real life examples show how consumer choices and producer incentives respond to price changes, forming the basis of market transactions

Deviations can occur due to factors like expectations, income effects, or luxury goods, but the basic law guide everyday economic decision