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Determination of Price and Quantity: Equilibrium and Disequilibrium Condition

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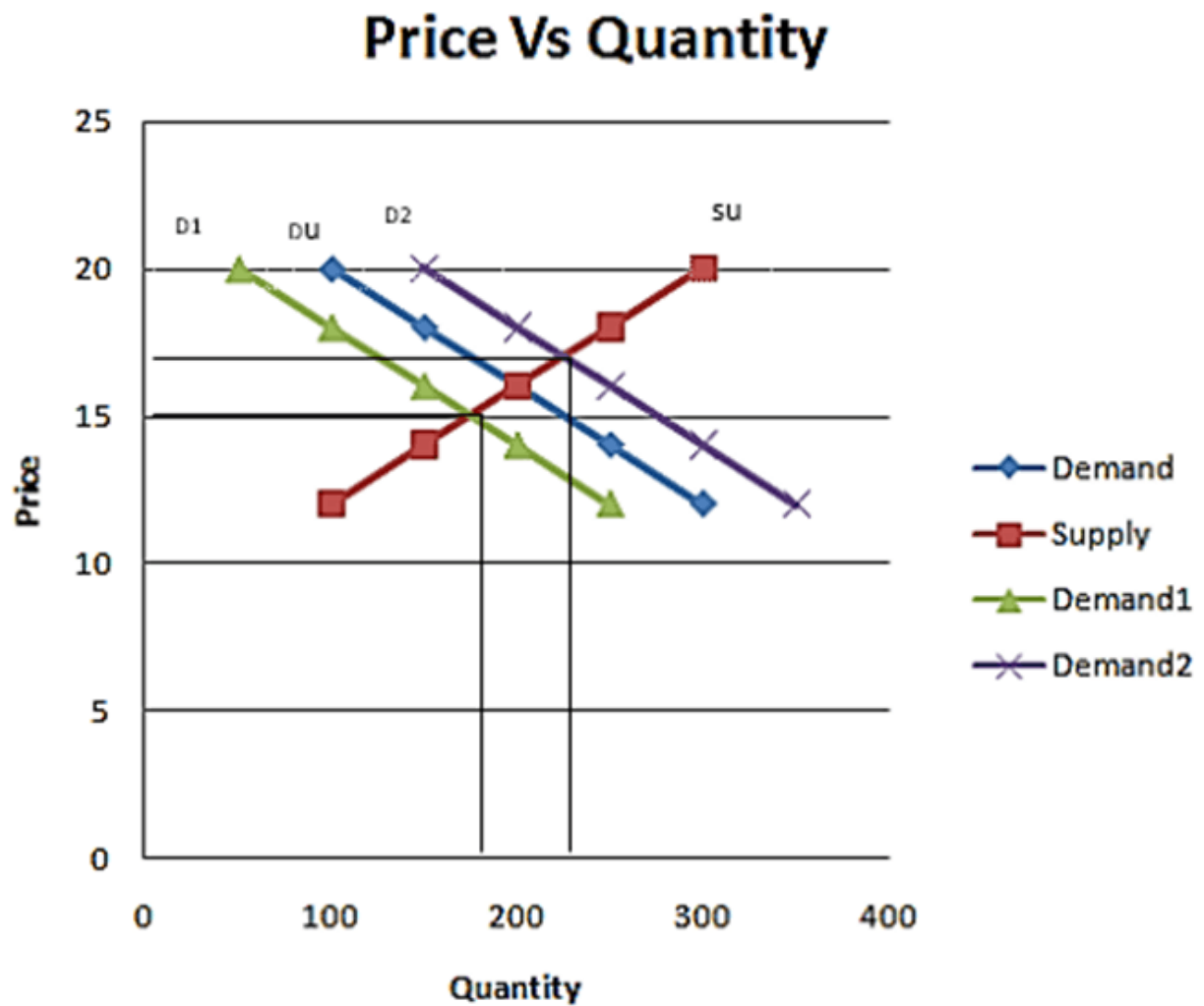
Equilibrium Condition

At price is ₹ 16 per kg, Quantity Demanded = Quantity Supplied

Disequilibrium Condition

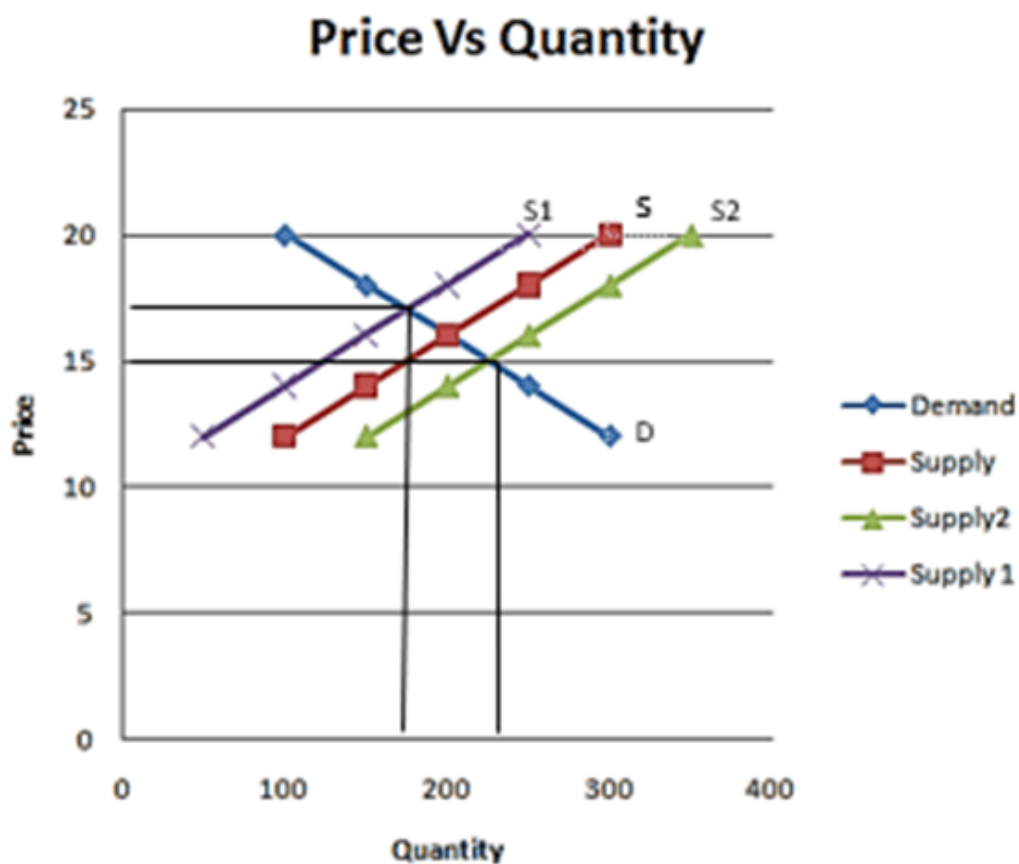
- If price is below ₹ 16 per kg, Quantity Demanded > Quantity Supplied. This condition is called Excess Demand. The price of tomatoes will rise till it reaches equilibrium price.
- If price is above ₹ 16 per kg, Quantity Demanded < Quantity Supplied. This condition is called Excess Supply. The price of tomatoes will fall till it reaches equilibrium price.

Effect of Change in Demand on Equilibrium price and Quantity when supply remains constant



- If Demand decreases (D1) , equilibrium price and equilibrium quantity will decrease.
- If Demand Increases (D2) , equilibrium price and equilibrium quantity will increase.

Effect of Change in Supply on Equilibrium Price and Quantity when Demand Remains Constant



- If Supply decreases (S1) , equilibrium price will increase, and equilibrium quantity will decrease.
- If Supply Increases (S2) , equilibrium price will decrease, and equilibrium quantity will increase.

Price of a good or service is not decided only by considering the profit. Seller or producer keeps in mind many other factors while deciding the price of a commodity or service. These are some of the important factors need to be consider while fixing the price.

- Cost of production - Total cost incurred by producer to produce one unit of a good.
- If the difference between price and per unit cost of production is more, profit of margin will be more.
- Competitors Price – Producer also consider price of similar products, fixed by competitors. Seller provides his commodity at lower price than the competitors in order to get more sales.
- Expected sales at different prices.