Market equilibrium

In general, " An equilibrium is a situation in which there is no tendency to change."

In economics literature, " By equilibrium , we mean the best possible situation within given condition."In an economy, we have various markets i.e. goods market, money market etc.

At present we are concerned with market equilibrium or goods market equilibrium.

"In goods market, equilibrium is the best possible situation, i.e. the situation in which quantity demanded is exactly equal to quantity supplied." Symbolically: Qd = Qs

Equilibrium Price(P bar)

Equilibrium Price is the best possible price within given conditions and it is determined by the equality of demand and supply forces.

Price is the pivot of goods market and all the economic decisions in both the key wings of an economy i.e. consumption wing and production wing are taken on the basis of price of goods and services.

Equilibrium Quantity(Q bar)

Equilibrium quantity is the best possible quantity within given conditions because it is the equality at which the pivot of goods market i.e. price has no tendency to change and there is neither shortage nor surplus in goods market..

Assumptions

The assumptions of equilibrium are as below:

1. **Buyers and sellers:** There are large number of buyers and sellers.

2. **Rationality:** The consumers and sellers are rational.

3. **Three Variables:** There are three variables in the model, price (P), quantity demanded (Qd) and quantity supplied (Qs).

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4. Zero excess demand: Equilibrium is obtained in the market if and only if the excess demand is zero, i.e. $Qd - Qs = 0$ or $Qd = Qs$

5. Decreasing function of demand: The demand function is a decreasing function of price.

6. Increasing function of supply: The supply function is an increasing function of price.

7. **Perfect knowledge:** It is assumed that buyers and sellers have perfect knowledge of market.

Explanation with the help of table

P	Qd	Qs	Market Condition
5	50	10	Qd > Qs (Shortage)
10	40	20	Qd > Qs (Shortage)
15	30	30	Qd = Qs (Equilibrium)
20	20	40	Qd < Qs (Surplus)
25	10	50	Qd < Qs (Surplus)