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Textbook Problem:

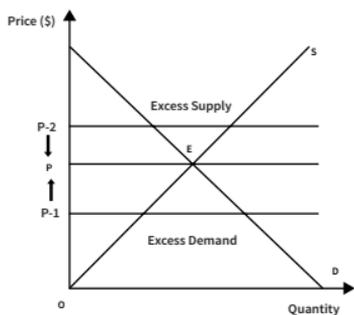
If the price is above line equilibrium level, would you predict a surplus or a shortage? If line price is below the equilibrium level, would you predict a surplus or a shortage? Why?

Program Explanation:

Consider the following diagram, where the demand and supply curves are intersecting at point 'E' where equilibrium price level is 'P'.

If the prices are less than equilibrium price level, 'P-1', then as we can see in the diagram, there will be a situation of shortage or excess demand. In this situation, the quantity demanded is greater than the quantity supplied. This is because the price level is lower than equilibrium price level and buyer demand is higher at that price level. So, there will be shortage of the product in the market.

If the prices are higher than equilibrium price level, 'P-2', then as we can see in the diagram, there will be a situation of surplus or excess supply. In this situation, the quantity supplied is greater than the quantity demanded. This is because the price level is higher than the equilibrium price level and more sellers are ready to sell their products, but fewer buyers are willing to buy the product at this price level. So, there will be a surplus of the product in the market.



"Chapter 3, Problem 18 RQ." Principles of Macroeconomics, by Steven A. Greenlaw et al., OpenStax, 2018.