LUMEN CHRISTI CATHOLIC COLLEGE

Be the Light of Christ

Examination Writing Booklet

Write your name and your teacher's name below

Name: [redacted]

Teacher: Mrs Mockler

Write the question number you are answering here: 23 (equilibrium)

- Write using pen
- Answer planning can be done in this booklet
- Request for an extra writing booklet if you need more space
- You may NOT take any writing booklets, used or unused, from the examination room

As the most desired market position, equilibrium represents a state where a firm is operating at their most efficient point, where S = D (supply = demand). Market equilibrium is the most important goal for a firm to achieve in their market because of its maximum profitability.

Market equilibrium is determined by the two main factors of supply and demand as most things are. To achieve market equilibrium a firm must make their supply exactly the same as their demand which is theoretically ideal but practically almost unachievable. If a firm is in a situation where they have a surplus of supply and a deficit of demand this is accurately named a "non-equilibrium market-situation" where the demand must be increased to meet the supply and achieve market equilibrium. This can be done by beginning a advertising campaign that targets a specific under-utilised demographic or that emphasises the importance of the product to the consumer. This is aimed to increase the inelasticity of the product and increase the demand accordingly. If a firm can make their product inelastic in the eyes of the consumer they can guarantee more business as the total amount of consumers will increase. We can also see firms raising their demand through the

emphasis of the "need" for their product as a result of externalities. We saw a great example of this method a few months ago when demand for hand sanitiser increased exponentially as a result of the outbreak of the Covid-19 pandemic. With this externality positively influencing the demand of the product, firms who where in a deficit of demand managed to achieve market equilibrium through the increased inelasticity of their product.

In an inverse "non-equilibrium-market-situation" where the demand outweighs the supply equilibrium can be achieved much easier because the incentive for the consumer to purchase the product is already present and the inelasticity is already at an ideal level within the constraints of practicality. The solution to this situation is to increase supply, this can be done by hiring more workers and in turn, increasing the output and productive efficiency of the product. But with hiring more workers another problem arises as the demand for workers increases as you hire and more, leading to increased remuneration to workers by the firm. To avoid this firms opt to invest in technological advancement instead of manpower because the cost of production is substancially lower. We saw this change across all labour industries throughout the last 80 or so years as globalisation came into effect and allowed for greater technological

automation specialisation can create efficiency dividends

advancement in many different industries. In order to achieve market equilibrium, firms will strive for optimal productive efficiency to increase profits and expand their businesses financial ambitions.

In the search for greater profits and financial expansion, firms will aim to reach market equilibrium through improvements in productive efficiency and an increase in inelasticity for their product. Equilibrium is always changing as a result of the ever-changing nature of many economic conditions variables and factors but intelligent and strategic economic methods can guide a firm to achieve market equilibrium.

[redacted]

Written in an authoritative & convincing tone, this response reads well.

Some key information around eq & non-eq was integrated expertly & the contemporary example of hand sanitiser was both original & insightful.

To strengthen the response use GRAPHS a picture really is worth a thousand words. Also, avoid sweeping generalisations such as "ever-changing nature" (above) use specific examples & anchor the discussion in contemporary economic statistics. tbn.