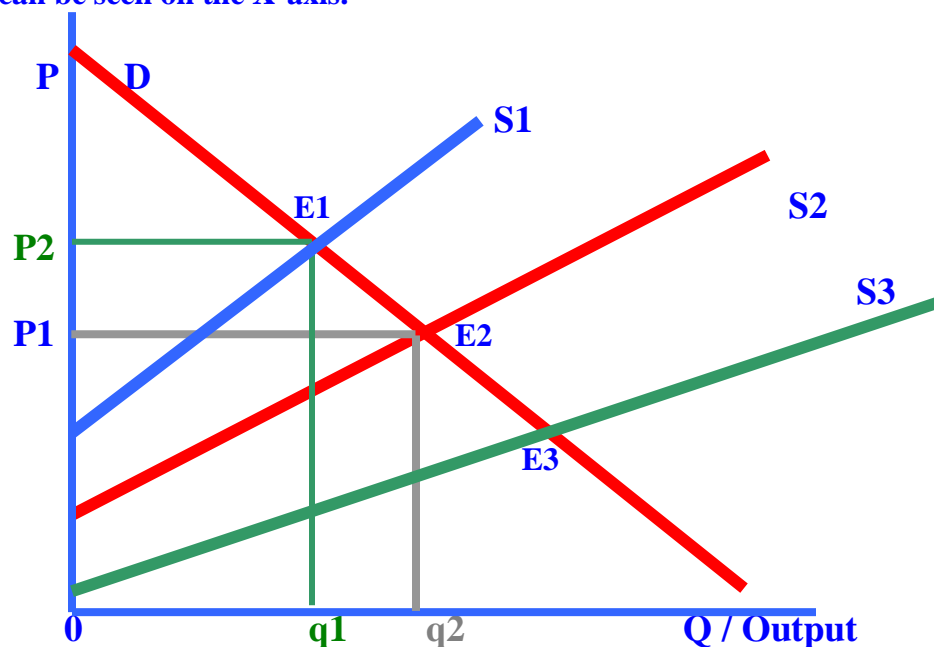


Supply + Demand

- **1.1:** The free market and the price mechanism can bring about equilibrium at M, e or e2 (supply and demand intersect at these points). We will study this in section 2 of the syllabus.
- As price adjusts the market allocates resources to produce a quantity of q1 or q2 (factors of production are required). This is resource allocation and this can be seen on the X-axis.

Big Question:
why is it better
for markets to
get bigger
rather than
smaller?



- Not only the consumer and the producer benefit. Society as a whole benefits from larger output and increased levels of goods and services. This is why the market is desirable and can allocate resources effectively.