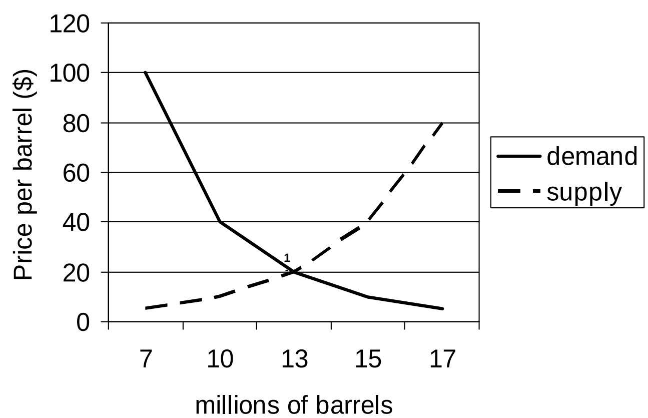
**Lecture 8: Buyers and Sellers**

Put demand and supply together to get "*equilibrium price*" - price at which the quantity of the product or service (often called a "good") desired to be purchased by buyers exactly equals the quantity of the product or service desired to be produced and sold by sellers. The corresponding quantity is called the *"equilibrium quantity"*.
The equilibrium price and equilibrium quantity together is called the *market equilibrium*.




In the figure above, at a price per barrel of $20, sellers want to produce and sell 13 million barrels, and at that same price, buyers want to purchase 13 million barrels. The equilibrium price is $20 and the equilibrium quantity is 13 million barrels (point 1).

If the price was higher, say at $80 per barrel, sellers would want to produce and sell 17 million barrels, but buyers would only purchase 7 million barrels, so there would be a "*surplus*" and sellers would gradually reduce the amount they produced and price would fall. At the same time, as the price fell, buyers would purchase more. This process would stop when the "equilibrium price" was reached.

Conversely, if the price was lower, say at $5 per barrel, buyers would want to purchase 17 million barrels, but sellers would only produce 7 million barrels, so there would be a "*shortage*", and as the price rose sellers would produce more and buyers would purchase less. Again, this process would stop when the "equilibrium price" was reached.

This interaction between buyers and sellers is called a *"market"*. So, we can talk about the oil market, the gasoline market, the rental housing market, etc. When the equilibrium price is the prevailing price, a market is said to be "*in equilibrium"*.

Anytime there is a "demand" for something, there will likely be a "supply" and therefore a "market". Laws making markets illegal may not do so - they may just change the relative demand and supply. Illegal markets usually have higher prices than legal markets because illegal markets must include the costs related to violating the law. However, this means that sellers in illegal markets who successfully avoid the law can often make very large profits. And because there is not the normal entry by competitors into illegal markets, those large profits can sometimes be sustained.