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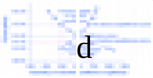
Key points

- *Supply and demand curves intersect* at the equilibrium price. This is the price at which the market will operate.

Where demand and supply intersect

Because the graphs for demand and supply curves both have price on the vertical axis and quantity on the horizontal axis, the demand curve and supply curve for a particular good or service can appear on the same graph. Together, demand and supply determine the price and the quantity that will be bought and sold in a market.

Intersecting supply and demand curves



The graph shows the demand and supply for gasoline where the two curves intersect at the point of equilibrium.

The demand curve, D, and the supply curve, S, intersect at the equilibrium point E, with an *equilibrium price* of 1.4 dollars and an *equilibrium quantity* of 600. The equilibrium is the only price where quantity demanded is equal to quantity supplied. At a price above equilibrium, like 1.8 dollars, quantity supplied exceeds the quantity demanded, so there is excess supply. At a price below equilibrium, such as 1.2 dollars, quantity demanded exceeds quantity supplied, so there is excess demand.

We can also find the equilibrium price by looking at a table.

Price per gallon	Quantity supplied in millions of gallons	Quantity demanded in millions of gallons
$1.00	500	800
$1.20	550	700
$1.40	600	600
$1.60	640	550
$1.80	680	500
$2.00	700	460
$2.20	720	420

The equilibrium price is the only price where the plans of consumers and the plans of producers agree—that is, where the amount consumers want to buy of the product, quantity demanded, is equal to the amount producers want to sell, quantity supplied. This common quantity is called the **equilibrium quantity**. At any other price, the quantity demanded does not equal the quantity supplied, so the market is not in equilibrium at that price.

The word equilibrium means balance. If a market is at its equilibrium price and quantity, then it has no reason to move away from that point. However, if a market is not at equilibrium, then economic pressures arise to move the market toward the equilibrium price and the equilibrium quantity.

Check out this video to see a discussion of how the interaction between supply and demand leads to an equilibrium price.