Market Equilibriums:

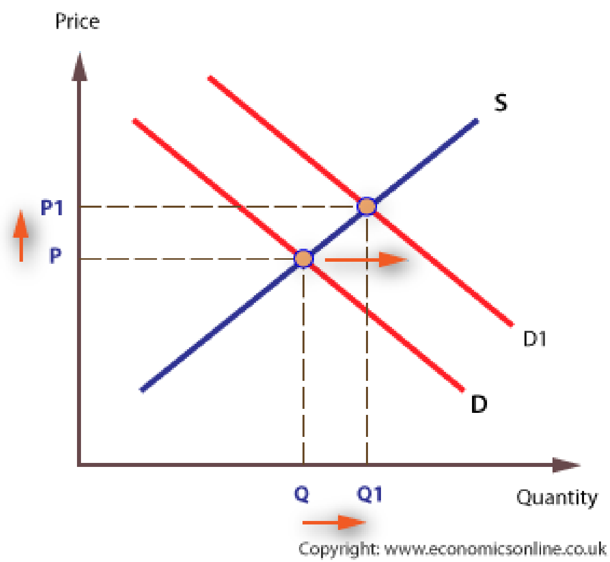
Let's pretend the market below is in long run equilibrium at price P and quantity Q, but suddenly people's taste change, which causes them to want more of this product. So Demand shifts right from D to D1, and the price increases from P to P1, and quantity changes from Q to Q1.

See if you can answer these questions:

1) What happens to the supply in the short-run?

2) What happens to supply in the long run?

Find answers to these question below:



1) In the short run there is **movement along** the supply curve from P to P1 (and from Q to Q1)

2) In the long run more firms will enter the market because of the higher prices being paid for the product, so the supply curve **will shift** as shown below resulting in a new long run equilibrium (shown by blue dot):