ANALYSIS OF MARKET EQUILIBRIUM AND ITS INFLUENCING FACTOR

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ABSTRACT

This article analyzes the concept of market equilibrium, its formation process, and the key factors that influence it. It elucidates how market equilibrium emerges from the interplay between price, demand, and supply, shaped by economic factors, government policy, the level of competition, and external economic influences. Furthermore, the article discusses the theoretical foundations and practical importance of maintaining market equilibrium, as well as its role in ensuring economic stability

Introduction: Market equilibrium is a state in which the quantity and composition of demand and supply in the market align. Market equilibrium is formed through the interaction of price, demand, and supply. The price reflects the market situation for consumers and producers and predetermines the behavior of economic entities. Market equilibrium can be of two main types: stable (the previous equilibrium price and quantity are restored) and unstable (a new equilibrium price and quantity is established).

Factors influencing market equilibrium include:

1. **Economic factors:** Global economic changes (international trade agreements, crises) can alter demand and supply and disrupt equilibrium.
2. **Political and social factors:** Tax policies, subsidies, and government regulations affect market demand and supply.
3. **Ecological factors:** Sustainable development and ecological requirements direct consumers towards environmentally friendly products.
4. **Technological changes:** New technologies can make production more efficient and increase supply, or technological weaknesses can decrease demand.
5. **Consumer tastes and incomes** also affect demand, in addition to price.
6. **Needs within the market, production volume, reserve levels, and the state of exports-imports** are also factors that shape equilibrium.

To maintain equilibrium, it is necessary to adjust production to the level of demand, regulate prices, and manage reserves and imports-exports. Market equilibrium plays a crucial role in ensuring economic stability and efficiency.

Market equilibrium is the market condition where the quantity demanded for a particular good or service is equal to the quantity supplied. At this point, the equilibrium price and equilibrium quantity of the good are formed. The equilibrium price is a price that is

convenient for both the seller and the buyer. At this price, the quantity of goods that sellers are willing to sell is exactly equal to the quantity that buyers are willing to purchase. The equilibrium quantity is the total quantity of a good or service bought and sold in the market at the equilibrium price. Market equilibrium is not a static state but a constantly moving, dynamic process. It is established automatically through the "invisible hand" (Adam Smith). If the price is above the equilibrium price, a surplus of the good occurs, which leads to a decrease in price. If the price is below the equilibrium price, a shortage of the good occurs, which causes the price to rise. Thus, the market has a self-equilibrating property. The main factors causing changes in market equilibrium are changes in demand and supply.

Demand is consumers' willingness and ability to purchase a good or service during a certain period at various prices. **Factors that shift the demand curve (other than the price of the good itself):**

- **Consumer Income:**

- **Normal goods:** As income rises, demand for them increases (e.g., fruits, quality clothes, travel). As income falls, demand decreases.

- **Inferior goods:** As income rises, demand for them decreases, as people switch to more expensive, higher-quality substitutes (e.g., switching from public transport to a private car, from cheap products to more expensive ones).

- **Prices of Related Goods:**

- **Substitute goods:** When the price of one good increases, demand for its substitute increases (e.g., if the price of tea rises, demand for coffee increases).

- **Complementary goods:** When the price of one good increases, demand for the good used with it decreases (e.g., if the price of cars rises, demand for gasoline decreases; conversely, if printers become cheaper, demand for printer paper increases).

- **Tastes and Preferences:** Fashion, advertising, health trends, and cultural changes influence consumer tastes and alter demand (e.g., the increased demand for environmentally friendly products).

- **Expectations:** Consumers' expectations about future price increases or decreases affect their current purchases. If prices are expected to rise soon, people will try to buy more now (demand increases).

- **Number of Buyers:** An increase in the number of buyers in the market (e.g., population growth) increases overall demand.

How does a change in demand affect equilibrium?

- If demand increases (the curve shifts to the right) -> both the equilibrium price and the equilibrium quantity rise.

- If demand decreases (the curve shifts to the left) -> both the equilibrium price and the equilibrium quantity fall.

Factors affecting supply: Supply is producers' willingness to sell a good or service during a certain period at various prices.

Factors that shift the supply curve (other than the price of the good itself):

Price of Factors of Production (Input Prices): As the price of resources such as raw materials, wages, energy, and rent increases, production costs rise, and supply decreases. Conversely, if costs fall, supply increases.

Technology: Technological advancements increase production efficiency, reduce costs, and thus lead to an increase in supply.

Number of Sellers: If new firms enter the market, total supply increases. If firms leave the market, supply decreases.

Government Policy: Taxes increase costs for producers and decrease supply.

Subsidies: Financial aid from the government (subsidies) reduces producers' costs and increases supply.

Expectations: If producers expect the price of a good to rise in the future, they may hold back the current product, reducing supply.

How does a change in supply affect equilibrium?

- If supply increases (the curve shifts to the right) -> the equilibrium price falls, but the equilibrium quantity rises.
- If supply decreases (the curve shifts to the left) -> the equilibrium price rises, but the equilibrium quantity falls.

Often, demand and supply can change simultaneously in the market. This leads to more complex outcomes.

Example 1: Demand and supply increase simultaneously. **Result:** The equilibrium quantity increases significantly. The change in equilibrium price, however, is indeterminate. If the increase in demand is stronger than the increase in supply, the price will rise. If the increase in supply is stronger, the price will fall.

Example 2: Demand and supply decrease simultaneously. **Result:** The equilibrium quantity decreases significantly. The change in price is again indeterminate. If the decrease in demand is stronger, the price will fall. If the decrease in supply is stronger, the price will rise.

The Impact of Macroeconomic Indicators on Market Equilibrium

Indicator	2023 (estimated data)	Impact on market equilibrium
GDP Growth	+5.5%	Economic growth increases population income, which boosts overall demand for many goods and tends to raise equilibrium prices.
Inflation	+8.5%	A decrease in the value of the currency reduces consumers' purchasing power. If wages do not keep pace with inflation, real demand will fall.
Unemployment Rate	- 6.8%	A low unemployment rate indicates stability in the workforce and income, which helps maintain stable demand. Conversely, a rise in unemployment leads to a decrease in demand.

Overall market equilibrium is directly linked to the economic health of a country.

Time Series Statistics (Example of the Cotton Market in Uzbekistan)

Year	Average Price (per 1 ton, USD)	Uzbekistan's Supply (thousand tons)	Key Factors (Note)
2019	1,800	3,300	Average harvest, global demand stable.
2020	1,600	3,500	Favorable weather -> supply increased. Result: price decreased.
2021	2,200	3,200	Global economic recovery -> demand increased. Result: price rose.
2022	2,500	2,800	Drought -> supply decreased. Result: price rose sharply.
2023	2,100	3,400	New international trade agreements -> export opportunities increased. Supply recovered, price fell slightly.

This table shows how the equilibrium in the cotton market changed over several years due to global and domestic factors.

Conclusion: Market equilibrium is one of the most important indicators of an economic system, representing the balance between demand and supply. The price mechanism plays a decisive role in ensuring market equilibrium, as it coordinates the decisions of producers and consumers. However, in a real economy, there are many factors affecting equilibrium, which manifest as internal (production costs, technologies, income levels) and external (government policy, international market conditions, inflation) factors. Therefore, to maintain and positively influence market equilibrium, sound government economic policy, support for a competitive environment, and ensuring stable macroeconomic conditions are of great importance.

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