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CORE CONCEPT OF

BUSINESS ECONOMICS & ENVIRONMENT

1. What is Concept of Equilibrium-Stable?
2. Point out the Static Equilibrium.
3. Briefly explain the Dynamic Equilibrium.
4. Illustrate the Stable Vs. Unstable Equilibrium?
5. What do you mean by Neutral Equilibrium?

Concept of Equilibrium-Stable

A common example of a **stable equilibrium** in the study of **economics** is a market **equilibrium**. Prompted by the imbalance in the market, the price changes, which causes changes in quantity demanded and quantity supplied. The quantity changes eliminate the shortage or surplus and restores **equilibrium** balance in the market.

Economic equilibrium is a condition or state in which economic forces are balanced. These economic variables remain unchanged from their equilibrium values in the absence of external influences. Economic equilibrium may also be defined as the point at which supply equals demand for a product, with the equilibrium price existing where the hypothetical supply and demand curves intersect.

Meaning - The word equilibrium has been derived from the Latin word "aequilibrium" which means Equal Balance. In economics it entails a point of relax characterised by non-existence of change. It is a condition where absolute concord of the economic strategy of an assortment of market partaker so that no one has a propensity to rework or modify this judgment. Economist Scitovsky defines as "A market or Economy or any other group of persons and firms is in Equilibrium when none of its members feels impelled to change his behaviour. For a group to be in equilibrium therefore all its

members must be in equilibrium and the equilibrium behaviour of each member must be compatible with the equilibrium behaviour of all other members."

Static Equilibrium

Prof. Boulding has explained static equilibrium as "A Mechanical analogy may be found in a ball rolling at a constant speed, or better still of a forest in equilibrium where tree sprout grows or dies but where the composition of a forest as a whole remains unchanged." This is static equilibrium which is based on given and invariable prices, volume, revenue, taste, expertise, inhabitants etc.

Dynamic Equilibrium

Dynamic equilibrium has constant changing prices, volume, earnings, tastes, technology etc. Therefore for over an interlude of time, a state of disequilibrium fairly than equilibrium is to be found. If there is difference in the judgement being made by few of the market partakers, it is likely to alter the existing equilibrium situation and there is disequilibrium. Those partakers who are in disequilibrium in their pains to arrive at the equilibrium condition throw others into disequilibrium. Thus a chain reaction sets in which ultimately brings the judgements of all the partakers in synchronization and a novel equilibrium condition is accomplished. Prof. Mehta, has defined as "When after a fixed period the equilibrium position is disturbed it is called Dynamic Equilibrium."

Stable Vs. Unstable Equilibrium

Marshall has defined as "When the demand price is equal to the supply price, the amount produced has no tendency either to be increased or to be diminished it is equilibrium. Such an equilibrium is stable, that is the price, if is displaced a little from it, will tend to return as a pendulum oscillates about its lowest point." Alternatively, equilibrium is unstable when any commotion in equilibrium condition brings in forces which move the structure away from it, never be restored.

Neutral Equilibrium

Neutral equilibrium is another type of equilibrium. When an early equilibrium point is bothered the forces of commotion fetch it to the fresh location of equilibrium where the structure has come to relax. For instance, a ball in the billiard table if bothered will come to rest at the new position to which it has moved. "An egg lying on its side is in neutral equilibrium.