**Essay Question 3 (GCE A level 2018)**

**Introduction**
To understand why there will be an excess demand in this concert event and why the price will be higher when there is a resale market, there is a need to use the demand and supply analysis to derive market equilibrium which explains how the price and output is set based on the intersection of the demand and supply curve.

**Main body**

1. Explain how the market equilibrium is set in the concert market without the resales market

In the concert market, the supply curve is a fixed supply where the supply curve is vertically sloped, as the number of seats is fixed by the capacity of seating capacity set by the organiser. There is no change in the quantity supplied when the price of tickets increases or decreases. As for the demand curve, it is horizontally sloped or perfectly elastic as there is perfect market information about the price of ticket, implying that the consumers will not buy if the price is above the price set by the organiser and the concert seller will not sell if the price is below the price set by the organiser. Given these conditions, the market equilibrium is determined at the level of price and output where the demand curve intersect the supply curve where there is no excess demand or supply condition.

**Diagram 1 – market equilibrium**

As seen from the diagram, the demand curve is horizontally sloped as represented by Do while the supply curve is vertically sloped as represented by So which intersects at the market equilibrium at Eo. Consequently, the price and quantity level is set at Po and Qo.

**2. Explain why there is excess demand and the price of concert ticket will rise when there is resale market**

However, when there is a resale market demand, the demand curve changes from the perfectly elastic demand curve Do to D1 which is downward-sloping, reflecting the law of demand where there is an inverse relationship between the price and quantity demanded. The downward-sloping curve also reflects the taste and preference and the purchasing as the demand curve is determined by the income and substitution effects of the change in quantity demanded in relation to change in the price.

As a result of the change in the demand curve, it give rise to an excess demand condition at the price set by the organiser at Po as the level of quantity demand for the concert ticket is greater than the quantity supplied of the concert ticket. As this excess demand condition creates an upward pressure for the price to rise, the price level rises from Po to P1, contribution the higher price level whet her is resale market.

As seen the diagram 1, the demand curve D1 cuts the supply curve S1 determining the market equilibrium at E1 and set the price level at another higher price level at P1 while the quantity level is at Qo.

**3. Analysis – why price rises sharply?**

It is also interesting to observe that the price increases but its extent of increase in price depends on two factors, namely the price elasticity of demand and the extent of increase in demand for the concert ticket. For the price elasticity of demand, the degree of necessity of demand is reflected by the degree of interest towards the singer while the extent of increase in demand is influenced by the income, taste and preference and the substitutes. The price will rise extensively if the demand is price inelastic and the demand increases extensively, contributing to the extensive outward and downward-sloping demand curve.

**Conclusion**

In sum, the condition of excess demand and high price when the resale market is allowed can be explained by the demand and supply analysis and the knowledge of price elasticity of demand. However, the condition can only occur if the resale market is feasible and possible.

**The average price of tickets for two concerts performed by singer-song writer Ed Sheeran in November 2017 at the Singapore Indoor Stadium was S$180. Tickets went on sale six months earlier and both concerts sold out almost immediately. Some tickets were later being offered for resale at prices well above their face value.**

**(b) Discuss possible strategies that concert organisers could use to improve the market outcome for this type of concert for producers and consumers. [15]**

**Introduction**

Based on the demand and supply analysis and other economic concept like price discrimination, it is possible to derive the best market outcome