Fixing an equilibrium price

How are ‘the prices and quantities of purchased products sold’ determined on competitive markets? Consider the example of the potato market:

Monthly supply and demand for potatoes		
Price of potatoes (cents/kg)	**Market demand (in 1,000 tons)**	**Market supply (in 1,000 tons)**
20	700 (A)	100 (a)
40	500 (B)	200 (b)
60	350 (C)	350 (c)
80	200 (D)	530 (d)
100	100 (E)	700 (e)

If the market price is 20c/kg, the quantity demanded exceeds the quantity supplied by 600,000 tonnes (A-a). A vast majority of the demand is not satisfied. Consumers are willing to pay more to be supplied. If the price then goes to 40c/kg, a similar scenario takes place: there is still a shortage (the quantity demanded exceeds the quantity supplied by 300,000 tonnes now), and prices rise more. It is therefore found that the effect of a shortage is reflected in an increase in prices. However, this situation tends to reduce the said shortage since the amount offered is increasing and the quantity requested decreases when prices rise.

What happens if the price is at a much higher level, 100c/kg? In this case, it is the quantity supplied which exceeds the requested amount by 600,000 tonnes. This surplus leads to downward prices; producers decreasing their price in order to sell their surpluses.

The only stable price is the one for which there are no excess of supply or excess of demand. This is the price for which the offer is equal to the quantity requested. In the example, this balance between supply and demand is reached at the price of 60c/kg. The price for which the quantity offered is equal to the quantity requested is called market equilibrium price.

John Sloman, Principles of Economics, Pearson, 2015.