

# Answer to Analysis

## 1. Scenario A: Price Increase → Surplus

- **Why it happens:** When the price of coffee increases (due to costlier beans), fewer consumers are willing to buy at the higher price, while suppliers want to sell more to earn more revenue.
  - **Market Effect:**
    - Unsold inventory piles up.
    - Businesses may offer discounts or promotions to reduce surplus.
    - Market forces push the price **downward** toward equilibrium.
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## 2. Scenario B: Price Decrease → Shortage

- **Why it happens:** Lower prices attract more customers, but suppliers may cut back due to smaller profit margins.
  - **Market Effect:**
    - Long lines, stockouts, or rationing may occur.
    - Businesses may raise prices or limit sales per customer.
    - Market forces push the price **upward** toward equilibrium.
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## Conclusion:

- Prices in a free market naturally adjust due to the forces of **supply and demand**.
- **Surplus** (excess supply) causes **downward pressure** on price.

- **Shortage** (excess demand) causes **upward pressure** on price.
- Ultimately, the market seeks to restore **equilibrium**, balancing quantity demanded and supplied.