



Economic Extended Break Assignments

Hello everyone! I hope that everyone is staying healthy and safe as we continue to go through this crazy time. Due to that, here is the next set of assignments for you to work on. You should be spending no more than 30 minutes on each assignment. Remember, these assignments are for a 2-week period, so you don't have to complete them all in one day. I have also created a Google Classroom that you can access, if you would rather do your work online. If you decide to complete the online work, it needs to be completed by the assigned day on Google Classroom. The packet work needs to be completed when we return to school.

I would like to have Zoom meetings with as many of you as I can on Mondays. I will send out the invitations later to your wildwoodisgreen.com email accounts. I will be starting these on Monday, April 13th from 1:45 to 2:15 to start. If we need to make it longer, we can. Log on if you have questions or just want to say "HI"! I can help you as best as I can.

As always, any questions, please feel free to email me at:
adranne.blaze@wildwoodisgreen.com.

***Google Classroom:**

1. To access Google Classroom, you first need to log in to your wildwoodisgreen.com email account. I have invited everyone by using your email. If for some reason I missed you, here is the class code you will need to be able to log in to the classroom. **Vu23tc6.**
2. Once in Google Classroom, you will see all the assignments that I have assigned. There are 6 of them. Each one has specific instructions for each and have a set date to when they are to be turned into me. You should be able to submit them to me. If not, email me your work.

***Assignment Packet:**

If you decide to do the paper packet, your assignments are the same as the ones that are online. Only difference is these assignments will be due when we return to school. I have listed the 6 assignments in order that they need to be completed. Please do your best to complete them.

Number of Assignment	Instructions for Assignment	Days to Complete
1	Read article "What is a free market economy?" Answer the 4 quiz questions and the essay questions over the article.	1
2	Read pages 18-23. Define the vocab words and answer the Section Review Questions at the end of each part. Write your answers in COMPLETE SENTENCES.	1
3	Demand Guided Notes Use the Demand Power Point to fill in the guided notes. Fill in the Thoughts and Reflection Section as well. Complete worksheets over Demand.	2
4	Supply Guided Notes Use the Supply Power Point to fill in the guided notes. Fill in the Thoughts and Reflection Section as well. Complete worksheets over Supply.	2
5	Price Guided Notes Use the Price Power Point to fill in the guided notes. Fill in the Thoughts and Reflection Section as well. Complete worksheets over Price.	2
6	Read article "The definition and importance of Supply and demand model". Answer the 4 quiz questions and the essay questions over the article.	1

Please let me know if you are experiencing any problems or concerns with any of these assignments and I will try to help you as best as I can. Stay safe and healthy and I hope to see you soon!!!

What is a free market economy?

By Mike Moffatt, ThoughtCo. on 09.05.19

Word Count **663**

Level **MAX**



Image 1. Paying money for goods, including food items, is an example of economic exchange. Photo courtesy: Pxhere, in the Public Domain

At its most basic, a free market economy is one that is governed strictly by the forces of supply and demand with no governmental influence. In practice, however, nearly all legal market economies must contend with some form of regulation.

Definition

Economists describe a market economy as one where goods and services are exchanged at will and by mutual agreement. Buying vegetables for a set price from a grower at a farm stand is one example of economic exchange. Paying someone an hourly wage to run errands for you is another example of an exchange.

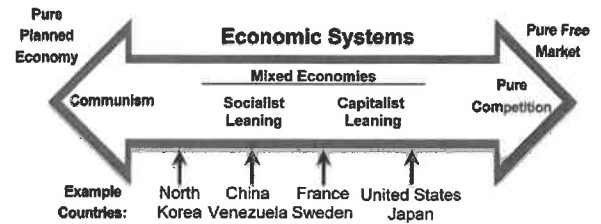
A pure market economy has no barriers to economic exchange: you can sell anything to anyone else for any price. In reality, this form of economics is rare. Sales taxes, tariffs on imports and exports and legal prohibitions —such as the age restriction on liquor consumption — are all impediments to a truly free market exchange.

In general, capitalist economies, which most democracies like the United States adhere to, are the freest because ownership is in the hands of individuals rather than the state. Socialist economies, where the government may own some but not all the means of production (such as the nation's freight and passenger rail lines), can also be considered market economies as long as market consumption is not heavily regulated. Communist governments, which control the means of production, are not considered market economies because the government dictates supply and demand.

Characteristics

A market economy has several key qualities.

- **Private ownership of resources.** *Individuals, not the government, own or control the means of production, distribution and exchange of goods, as well as the labor supply.*
- **Thriving financial markets.** *Commerce requires capital. Financial institutions, such as banks and brokerages, exist in order to supply individuals with the means to acquire goods and services. These markets profit by charging interest or fees on transactions.*
- **Freedom to participate.** *Production and consumption of goods and services is voluntary. Individuals are free to acquire, consume or produce as much or as little as their own needs require.*



Pros And Cons

There's a reason why most of the world's most advanced nations adhere to a market-based economy. Despite their many flaws, these markets function better than other economic models. Here are some characteristic advantages and drawbacks:

- **Competition leads to innovation.** *As producers work to satisfy consumer demand, they also look for ways to gain an advantage over their competitors. This can occur by making the production process more efficient, such as robots on an assembly line that relieve workers of the most monotonous or dangerous tasks. It can also occur when a new technical innovation leads to new markets, much as when the television radically transformed how people consumed entertainment.*
- **Profit is encouraged.** *Companies that excel in a sector will profit as their share of the market expands. Some of those profits benefit individuals or investors, while other capital is channeled back into the business to seed future growth. As markets expand, producers, consumers and workers all benefit.*
- **Bigger is often better.** *In economies of scale, large companies with easy access to large pools of capital and labor often enjoy an advantage over small producers that don't have the resources to compete. This condition can result in a producer driving rivals out of business by undercutting them on price or by controlling the supply of scarce resources, resulting in a market monopoly.*

— ***There are no guarantees.*** Unless a government chooses to intervene through market regulations or social welfare programs, its citizens have no promise of financial success in a market economy. Such pure laissez-faire economics is uncommon, though the degree of political and public support for such governmental intervention varies from nation to nation.



This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Quiz

1 Which of the following details is MOST important to the development of the article's CENTRAL idea?

- (A) At its most basic, a free market economy is one that is governed strictly by the forces of supply and demand with no governmental influence. In practice, however, nearly all legal market economies must contend with some form of regulation.
- (B) Socialist economies, where the government may own some but not all the means of production (such as the nation's freight and passenger rail lines), can also be considered market economies as long as market consumption is not heavily regulated.
- (C) Communist governments, which control the means of production, are not considered market economies because the government dictates supply and demand.
- (D) Financial institutions, such as banks and brokerages, exist in order to supply individuals with the means to acquire goods and services. These markets profit by charging interest or fees on transactions.

2 What is the relationship between the following selections from the article?

There's a reason why most of the world's most advanced nations adhere to a market-based economy. Despite their many flaws, these markets function better than other economic models. Some of those profits benefit individuals or investors, while other capital is channeled back into the business to seed future growth. As markets expand, producers, consumers and workers all benefit.

- (A) The first selection presents a problem and the second selection highlights a solution.
- (B) The first selection highlights a solution and the second selection presents a problem.
- (C) The first selection is a claim and the second selection shows support for the claim.
- (D) The first selection is a claim and the second selection is a contradiction to the claim.

3 Examine Image 1 and read the paragraph from the section “Definition” below.

Economists describe a market economy as one where goods and services are exchanged at will and by mutual agreement. Buying vegetables for a set price from a grower at a farm stand is one example of economic exchange. Paying someone an hourly wage to run errands for you is another example of an exchange.

Which statement accurately compares the image and the paragraph?

- (A) The image highlights a problem with economic exchange that is mentioned in the excerpt.
- (B) The image highlights another example of economic exchange that is described in the excerpt.
- (C) They both emphasize the idea that people can be paid hourly wages for their services.
- (D) They both emphasize the idea that people can exchange their services in order to obtain goods.

Image 2 shows a scale of economic systems.

What is an advantage to presenting economic systems in this way?

- (A) It allows the readers to understand that governments based on market economies tend to have an economic advantage over planned economies.
- (B) It allows the readers to understand where different countries fall in terms of the types of governments and economies they have.
- (C) It demonstrates to the readers that it is best for economies to be in the middle so that they do not face the repercussions of extreme ideas.
- (D) It demonstrates to the readers that communist governments can be considered a market economy because they are on the spectrum.

Name: _____

Free Market Economy Webquest



Directions: Complete the following questions using the website listed below. You may need to click on links in the article to read more about specific topics.

www.historycrunch.com/free-market-economy/

1. Explain economics in your own words.
2. What are the three main types of economic systems?
3. Where is 'free market economy' placed on the economic spectrum?

Name: _____

4. A free market economy is based on the principles of individualism. What is meant by individualism?
5. What are the individualist principles that a free market economy is based on? Briefly explain each.
6. What is the role of the government in a free market economy?
7. What is the role of individual consumers and producers in a free market economy?
8. How are prices and wages determined in a free market economy?
9. What type of political system is a free market economy usually associated with?

Name: _____

10. Define 'democracy':

11. What else is a free market economy considered to be or referred to as?

12. Define 'laissez-faire capitalism':

13. What example of a free market economy does the website discuss?

14. What was laissez-faire capitalism developed in response to?

15. What famous person argued in favor of a free market economy?

16. What modern countries contain some elements of a free market economy?

Name: _____

17. Identify three positives of a free market economy.

18. Identify three negatives of a free market economy.

19. Overall, do you think a free market economy is an effective economic system? Explain your reasoning.



How Markets Work Vocab Words

Name: _____

Period: _____

Read pages 18-23 and define the vocab words from the reading. Write your definitions in **COMPLETE SENTENCES**.

I. Demand:

1. Demand: _____

2. Law of Demand: _____

3. Demand Schedule: _____

4. Quantity: _____

5. Individual Demand Schedule: _____

6. Market Demand Schedule: _____

II. Supply:

1. Supply: _____

2. Law of Supply:

3. Supply Schedule:

4. Individual Supply Schedule:

5. Market Supply Schedule:

III. Prices:

1. Price:

2. Surplus:

3. Shortage:

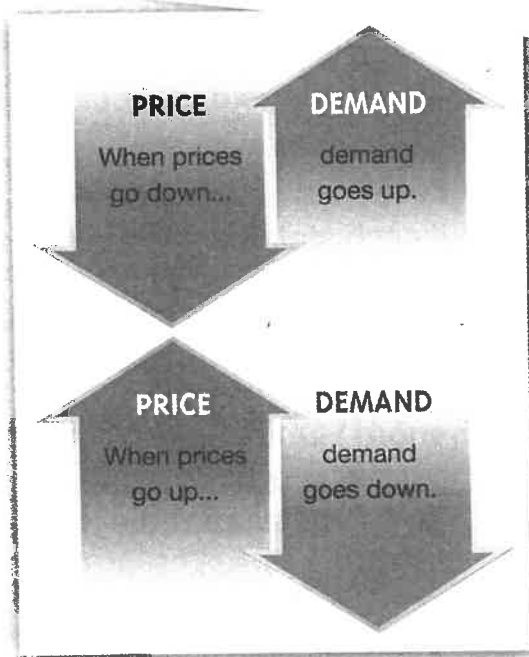
In a market economy, buyers want goods and sellers provide them. Buyers and sellers both help determine what the prices of goods will be and how much of each good will be produced. In this section, you will learn about **demand**. Demand is the desire to buy something and the willingness and ability to pay for it.

Sometimes, people think of demand as the desire to have a certain product, but it is not that simple. For example, if you think this way, you might say that every person who *wants* an expensive wristwatch *demand*s one. However, not everyone who wants a high-priced wristwatch can afford to buy one. Demand is not just the desire to have a certain product. It is also the willingness and ability to pay for that product.

The Law of Demand

The **law of demand** says that when the price of a good is lower, people will buy more of it. When the price of a good is higher, people will buy less of it.

The law of demand can be shown using a demand schedule. A **demand schedule** is a chart that lists the **quantity**, or amount, of a good that people will buy at each price. For example, the first demand schedule on the next page shows how many DVDs a sample consumer named Rachel would buy at certain prices.



Rachel's Demand Schedule

Price of a DVD	Quantity Demanded
\$45	0
\$30	0
\$25	1
\$15	3
\$10	6
\$3	10

Market Demand Schedule

Price of a DVD	Quantity Demanded
\$45	50
\$30	50
\$25	100
\$15	300
\$10	600
\$3	1,000

By looking at Rachel's demand schedule, you can see that Rachel would not buy any DVDs for \$45 or \$30 each, but she would buy one DVD if the price dropped to \$25. Rachel would buy three DVDs if the price dropped to \$15. Like most people, she would buy even more of the product if the price was lower.

Rachel's demand schedule shows the demand of ONE consumer, so it is called an **individual demand schedule**. Business owners look at charts that show the demand for EVERYONE who wants to buy the product. Using a **market demand schedule**, business owners can predict the quantities of a good that people will buy at different prices. This knowledge helps them decide how much they should charge for a product.

By looking at the market demand schedule, you can see that 50 people would buy a DVD for \$45. One thousand people would buy a DVD for \$3. As you can see, when prices go down, demand goes up.

Section Review

1. What is the difference between an individual demand schedule and a market demand schedule?

2. What happens to demand when prices go up?

:: Supply

Section 2

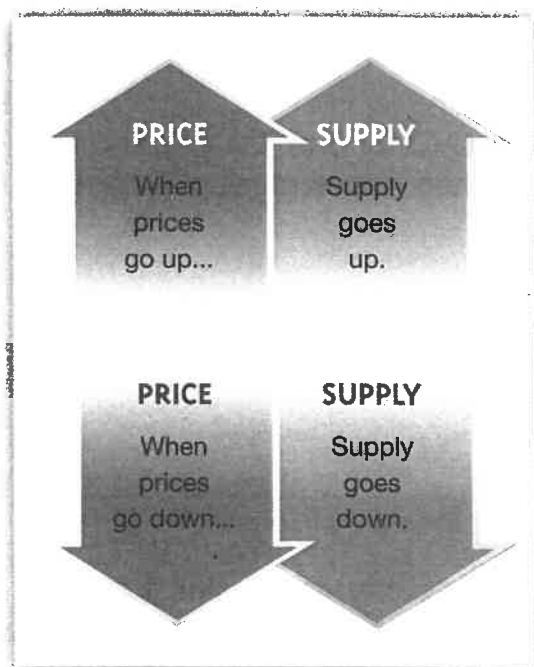
In a market economy, buyers want goods and sellers provide them. **Supply** is the amount of goods that is available to buy. In this section, you will learn how sellers decide how much to supply.

Sellers want to make the largest profit possible when they sell goods. Remember, profit is the amount of money that is left over after production is paid for. For example, if it costs a company \$5 to produce a music CD and the company sells the CD for \$15, the company makes a profit of \$10. If the company raises the price of the CD, it will make a bigger profit.

The Law of Supply

Just like there is a law of demand, there is also a **law of supply**. The law of supply says that when the price of a good is higher, a larger quantity of the good will be produced. When the price of a good is lower, a smaller quantity of the good will be produced.

Take the example of the music CD from above. Imagine that CDs are popular, so the price goes up. This is good for the seller because the seller can make a bigger profit. Therefore, the seller produces more CDs to sell at the higher price. At the same time, other sellers notice that CDs are selling well, so they decide to sell CDs too. These sellers are following the law of supply.



Supply Schedule for Sam's CD World

Price of a CD	Quantity Supplied
\$25	8
\$20	7
\$18	6
\$15	4
\$10	2
\$5	0

Just like the law of demand can be shown using a demand schedule, the law of supply can be shown using a **supply schedule**. A supply schedule lists the quantity of a good that a company will supply at different prices.

By looking at the chart, you can see that Sam's CD World supplies fewer CDs at lower prices. The chart at left shows the supply schedule of ONE company, so it is called an **individual supply schedule**. A market supply schedule lists the quantity of a good that ALL companies in a market will supply at different prices. A **market supply schedule** will have larger numbers of quantities supplied than an individual schedule, but otherwise they are the same.

Supply does not refer to only physical things, like CDs. For example, when you look for a job, you are a supplier because you are selling your services. Your labor is what you supply. Just like the owner of the CD store, you would probably be willing to supply more labor for a higher price.

Think about how much you study each night. What if you were paid \$5 for each hour that you studied? What if the price increased to \$50 per hour? You would probably study more for a higher price.

This young man is supplying labor by mowing his neighbor's lawn.



Jupiter Images

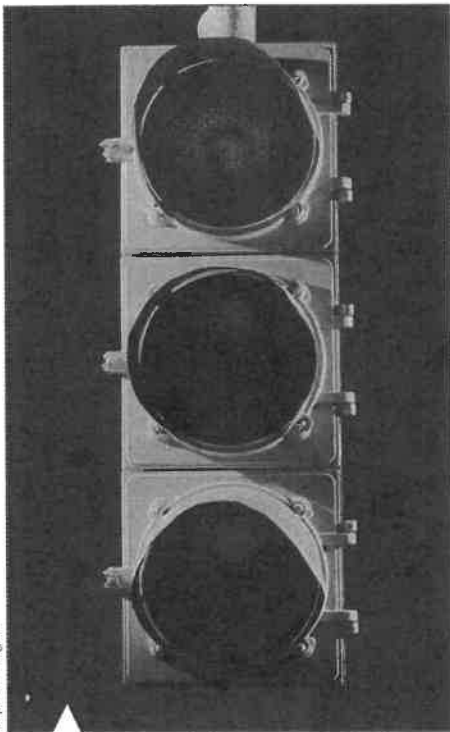
Section Review

1. What happens to supply when prices go up?

2. List one example of something that can be supplied.

You have learned about supply and demand in a market economy. In this section, you will learn how they work together.

Signals help people make decisions. For example, a traffic light tells drivers whether to stop or keep driving. If a traffic light is red, cars are being signaled to stop. If it is green, drivers know they can keep driving. In the marketplace, a **price** is like a traffic light. The price of a good or service is the signal that helps people make economic decisions.



Like a traffic light, prices are signals that help people make economic decisions.

Price is the value of a product that is defined by supply and demand. A higher price is like a green light for producers. Higher prices signal producers to produce more. The high prices also signal new producers to join the market. A low price is like a red light for producers. Low prices tell producers that more goods are being made than people are buying. Low prices tell producers to stop producing.

For consumers, the signals are the opposite. Consumers want to buy things at lower prices, so low prices are a green light for consumers. A high price is like a red light to consumers. It signals that consumers should stop and think carefully before buying a high-priced product.

How are prices determined? In the last two sections, you read about supply schedules and demand schedules. When the two schedules meet in the middle, a price is determined.

Demand Schedule

Price of a DVD	Quantity Supplied
\$45	50
\$30	50
\$25	100
\$15	300
\$10	600
\$3	1,000

Supply Schedule

Price of a DVD	Quantity Supplied
\$45	1,000
\$30	900
\$25	600
\$15	300
\$10	100
\$3	50

You can see that in this example, supply meets demand when a DVD's price is \$15. You can tell because at \$15, the quantity demanded equals the quantity supplied. Producers are willing to sell DVDs for \$15, and consumers are willing to buy them for \$15. Both sides can be happy with this price.

Prices are flexible. They change all the time. Prices change when supply and demand change. If consumers want more of something, producers can charge as much as people are willing to pay. If consumers lose interest in a good, producers have to lower their prices in order to sell what they have. When demand for a product goes down, producers are left with a **surplus**. A surplus happens when a producer has more of a product than he or she can sell.

If consumers want more of something than is available, then a **shortage** will happen. A shortage occurs when there is not enough of a product that consumers want to buy.

Section Review

1. What do high prices signal consumers to do?

2. What is a surplus?

NAME: _____

DEMAND ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

_____ → Deals with decisions
and behavior by small units (_____)

Explain the
demand schedule.

DEMAND

- _____ - The _____ to
_____ a product
- _____ must match the

HOW DO YOU MEASURE DEMAND?

- Measure \ _____
 - 46 m barrels of gas
 - 10 m bushels of grain
 - 40,000 bags of Skittles

DEMAND SCHEDULE

- Shows the _____
at each _____ at a _____ in the market

Price per Item(\$)	Quantity Demanded
60	0
50	1
40	2
30	3
20	4
10	5

MARKET DEMAND SCHEDULE

- Shows the _____
will pay at each price in the market

NAME: _____

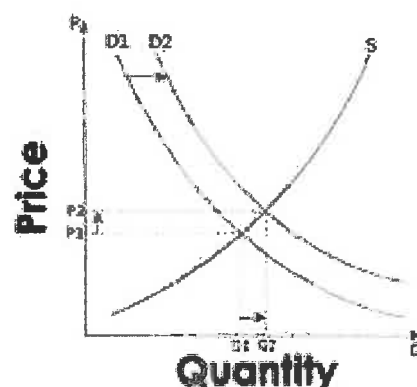
DEMAND ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

DEMAND CURVE

- Shows the _____
- Demand can be _____, and points connected for a curve that is _____
- Slopes _____ to lower right



Explain the relationship between demand and price.

DEMAND CURVE CAN SHIFT IF:

- _____
- _____

LAW OF DEMAND

- Price and demand are _____.
- _____ and _____

QUANTITY DEMANDED

- Represented by the _____
_____ to represent how much is
_____ at each _____ point.

CHANGE IN QUANTITY DEMANDED

- _____ → Income can affect the _____
_____ if a person's _____ goes up or down
- _____ → If the _____
_____ changes, it can affect the _____.

DEMAND ECONOMICS

[illegible]

NAME: _____

DEMAND ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

ELASTICITY OF DEMAND

- _____ is measured by the amount the _____ to the _____
- _____ → when price change leads to a _____
- _____ → when price changes leads to a _____

ELASTICITY

- A product is elastic if a _____ can cause a _____ demanded.
 - Example: _____ will be demanded more as the price decreases
- A product is _____ if a price change only causes a _____ demanded.
 - Example: _____ will be demanded at the same level despite the price.
- _____ likes to put _____ because they know that the price will not affect the amount demanded.

HOW TO DETERMINE IF A PRODUCT HAS DEMAND ELASTICITY

- Can I wait and purchase this later or do I have to have it now?
 - Later → Most Likely _____
 - Now → Most likely _____
- Can I substitute this product with another product?
 - Yes → Most Likely _____
 - No → Most Likely _____
- Does this purchase use a large amount of my income?
 - Yes → Most Likely _____
 - No → Most Likely _____

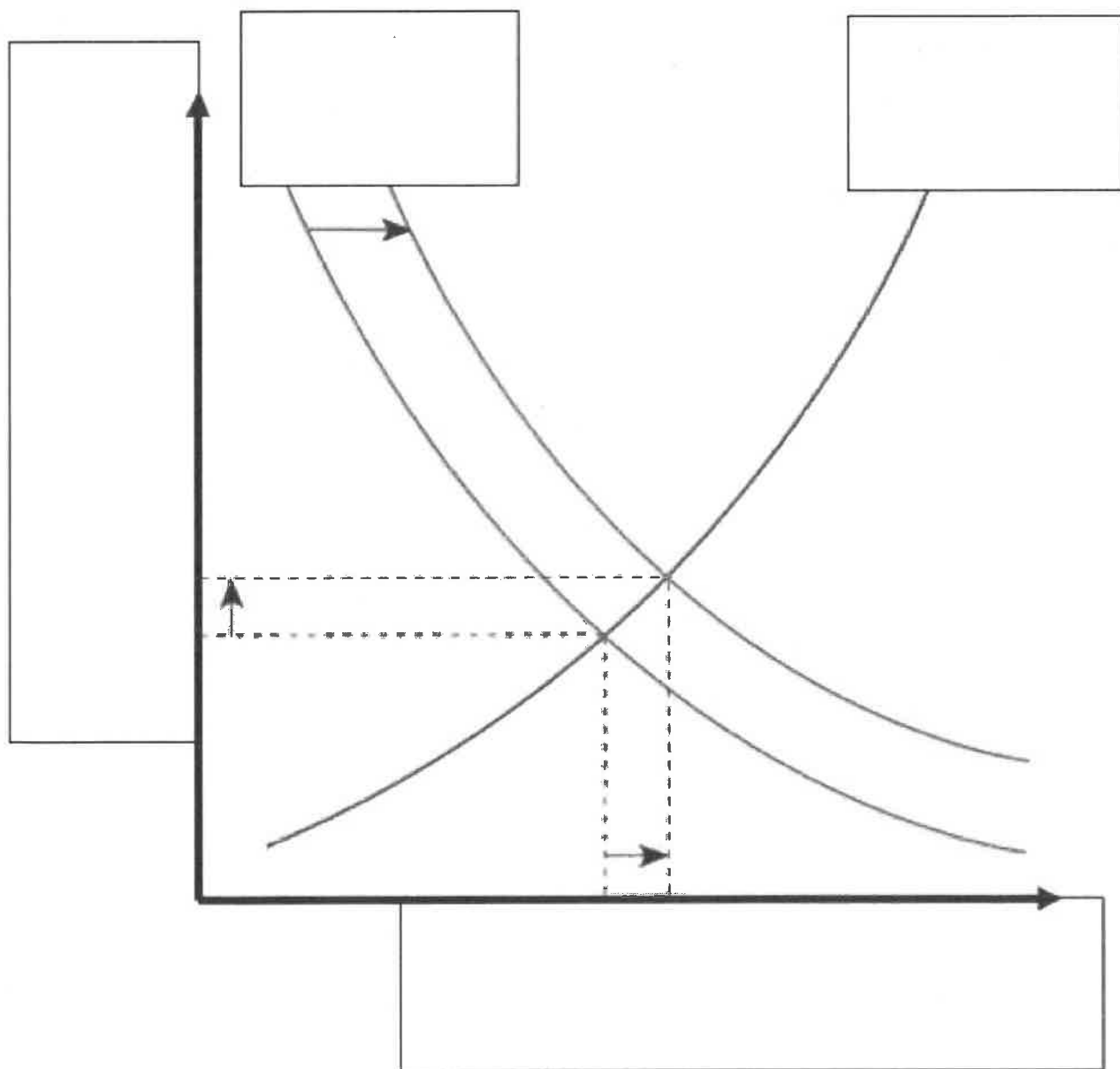
Explain the elasticity of demand in your own word and give an example.

List things that are elastic:

List things that are inelastic:

DEMAND SCHEDULE AND CURVE

60		0	
50		1	
40		2	
30		3	
20		4	
10		5	




Word Bank: Price, Quantity, Supply Curve, Demand Curve, Price, Quantity Demanded



Demand

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Microeconomics →
Deals with decisions
and behavior by
small units
(individuals and
firms)

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DEMAND

- **Demand** - The desire, ability, and willingness to buy a product
- Wanting a product must match the ability and desire to pay for it

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How do you measure Demand?

- Measure \ sales volume in an industry.
- 46 m barrels of gas
- 10 m bushels of grain
- 40,000 bags of Skittles

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Demand Schedule

- Shows the quantity (number) demanded at each price at a given time in the market

Price per Item(\$)	Quantity Demanded
60	0
50	1
40	2
30	3
20	4
10	5

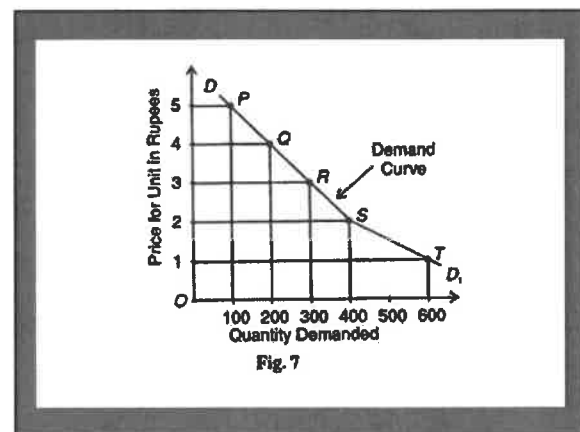
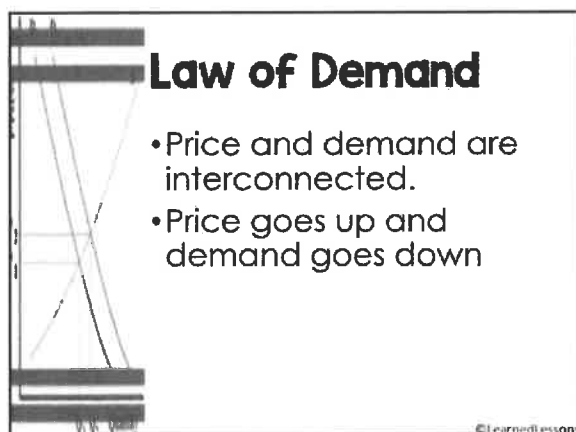
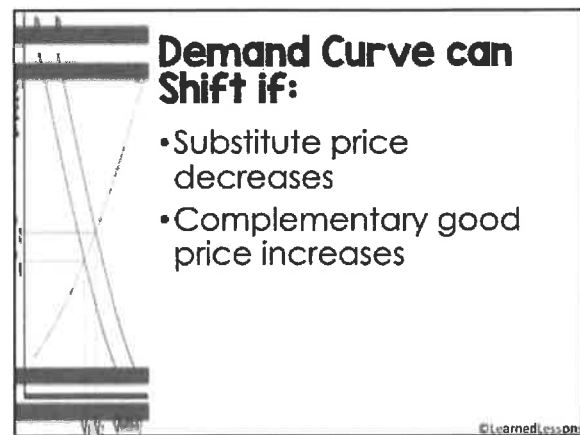
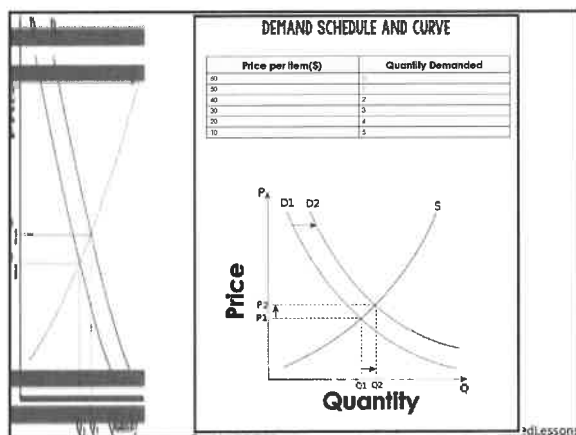
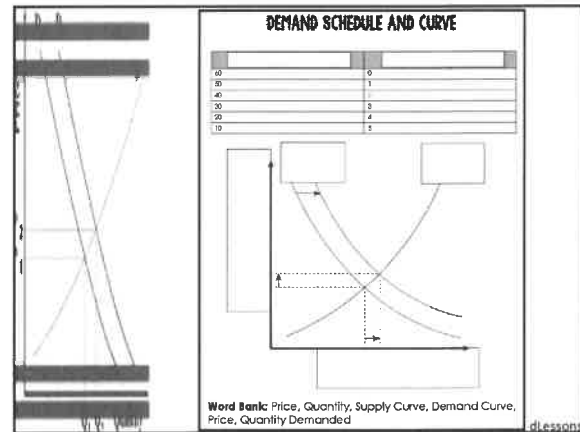
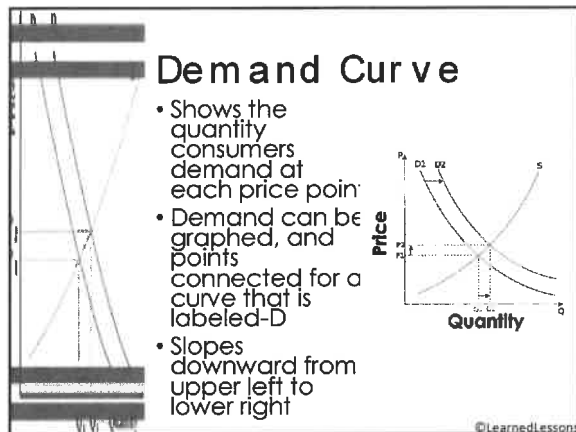
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Market Demand Schedule

- Shows the quantity (number) all consumers will pay at each price in the market

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Quantity Demanded

- Represented by the plotted points on a demand curve to represent how much is demanded at each price point.

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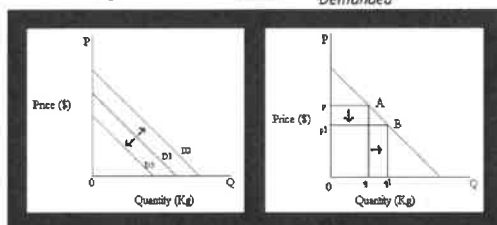
Change in Quantity Demanded

- Income Effect → Income can affect the amount demanded if a person's income goes up or down
- Substitute Effect → If the relative price of the product changes, it can affect the quantity demanded.

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Change in Demand

Change in Quantity Demanded



Overall Change in Demand

- Change in price of product can cause change in demand
- Change is number of consumers
- Change in preferences of consumers

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Overall Change in Demand

- When there is a change in demand, the demand curve shifts
- It moves right to show an increase in demand
- It moves left to show a decrease in demand

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Things that Affect Demand

- Income of consumer
- Preference of consumer
- The cost/price of similar/substitute/complementary or related products


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Things that Affect Demand

- Substitute products can be used to replace product
- Related products complement products so that a change in the price of one affect the demand for another. Phone and Phone Case
- Market Size → larger market = larger demand


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Elasticity of Demand

- Elasticity of demand is measured by the amount the price changes in comparison to the quantity demanded
- Elastic → when price change leads to a larger demand change
- Inelastic → when price changes leads to a smaller demand change


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Elasticity

- A product is elastic if a small change in price can cause a large change in quantity demanded.
 - Example: Gas will be demanded more as the price decreases
- A product is inelastic if a price change only causes a small change in quantity demanded.
 - Example: Doctors will be demanded at the same level despite the price.
- Government likes to put more taxes on inelastic goods because they know that the price will not affect the amount demanded.


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How to determine if a product has Demand Elasticity

- Can I wait and purchase this later or do I have to have it now?
 - Later → Most Likely Elastic
 - Now → Most likely Inelastic


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How to determine if a product has Demand Elasticity

- Can I substitute this product with another product?
 - Yes → Most Likely Inelastic
 - No → Most Likely Elastic

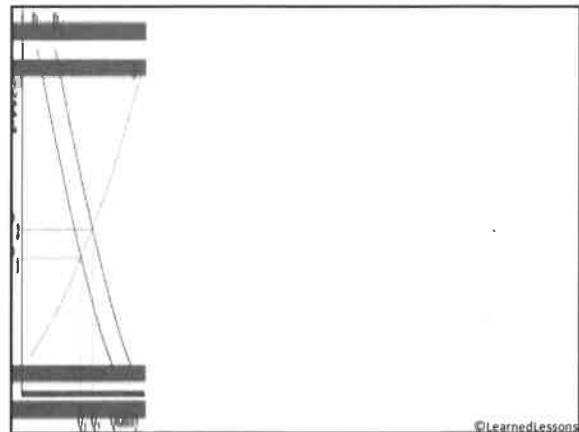
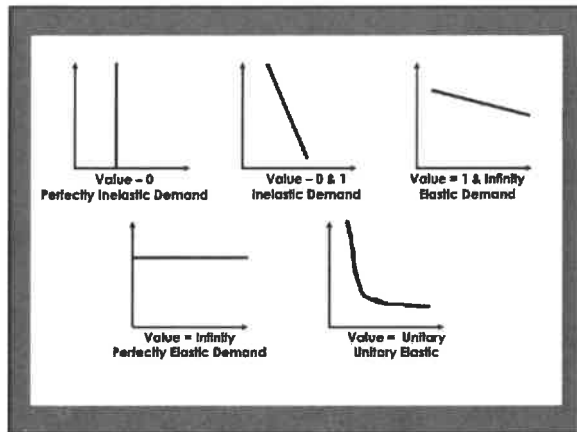
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How to determine if a product has Demand Elasticity

- Does this purchase use a large amount of my income?
 - Yes → Most Likely Inelastic
 - No → Most Likely Elastic

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Name _____

DEMAND**3**

Date _____

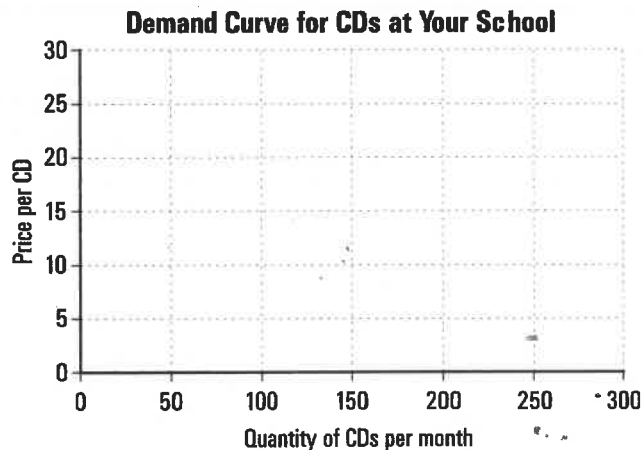
ECONOMIC SKILLS LAB

PLOTTING DEMAND CURVES

Examine the two demand schedules that follow and plot the demand curves. Then answer the questions that follow.

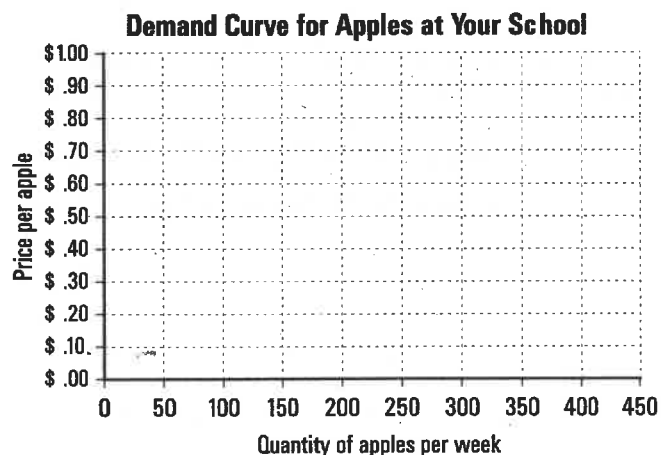
**Demand Schedule for CDs
at Your School**

Quantity Demanded (monthly)	Price (dollars)
300	\$5.00
250	10.00
200	15.00
150	20.00
100	25.00
50	30.00



**Demand Schedule for Apples
at Your School**

Quantity Demanded (weekly)	Price (cents)
400	10
350	20
250	30
150	50
100	80
50	100



Questions for Understanding

- If the price of CDs is \$10, how many will people buy? _____.
 - If the price of CDs is \$20, how many will people buy? _____.
- If the quantity of CDs sold is 200, what is the price? _____.
 - If the quantity of CDs sold is 100, what is the price? _____.
- How many apples will students buy at 30 cents each? _____.
 - How many apples will students buy at 80 cents each? _____.
- What effect does the price seem to have on the quantity of CDs and apples sold?

- Calculate total revenue (price x quantity)
 - if the price of apples is 30 cents. _____
 - if 100 apples are sold. _____
 - if the price of CDs is \$15.00. _____

3. DEMAND

Name _____ Date _____

ECONOMIC SKILLS LAB

IT ALL ADDS UP TO DEMAND-APPLYING A CONCEPT

The following table summarizes the number of CDs four people want to buy each month at different possible prices.

Monthly Demand for CDs					
Price per CD	Tim	Samantha	Jamal	Felicia	Total
\$5	5	10	8	4	
\$10	4	9	6	4	
\$15	3	9	4	2	
\$20	2	6	2	2	
\$25	1	5	0	0	
\$30	0	1	0	0	

1. Assume that Tim, Samantha, Jamal, and Felicia represent the total market. Use the table to calculate the market demand for CDs.

a. Show the market demand by filling in the blanks in the last column of the table.

b. Is the market demand a specific number of CDs? Why or why not?

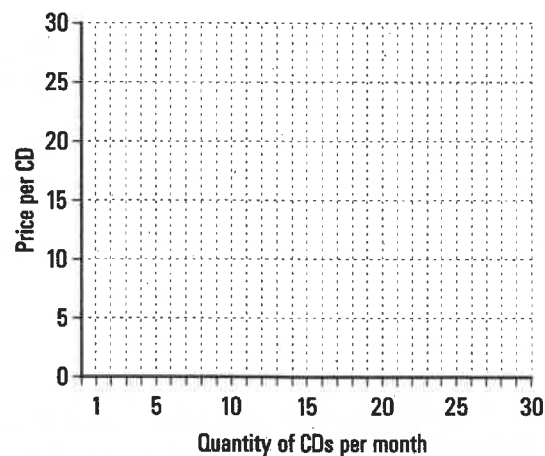
2. Suppose the price of CDs rises from \$15 to \$25.

a. What happens to the total number of CDs the four consumers want to buy?

b. Is this a change in demand? Explain.

3. Use the table to plot the market demand for CDs on the following graph:

4. Suppose music producers decide to raise the price of cassette tapes to equal the price of CDs. Will this cause a change in the demand for CDs? Explain why.



Name _____ Date _____

ECONOMIC SKILLS LAB

THE VALUE IN DEMAND—INTERPRETING DATA

Every choice has benefits and costs. But the values people put to those costs and benefits vary. You may be willing to spend \$20 for a pizza someone else valued at only \$5. Still another person may be unwilling to spend anything on pizza.

Such personal value of a product is shown in the following table. Johnny likes apples in his lunch, in pies, in cobbler, and even in sauce. But even the greatest apple lovers eat only so many each day, and with each apple they eat, they value the next one less.

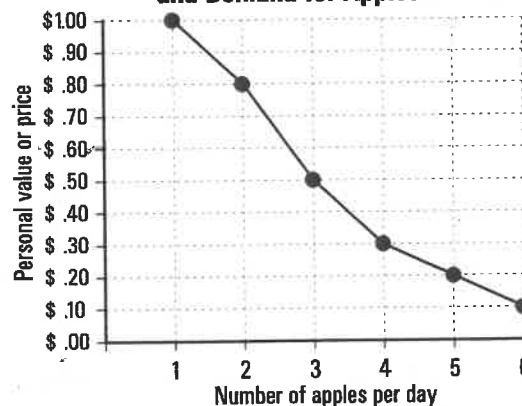
Johnny's personal value for one apple each day is \$1.00. This means he would give up buying a dollar's worth of other goods and services so he could buy an apple. But a second apple is worth \$.80 to him, and a third apple is worth only \$.50. The more apples Johnny has, the less value he puts on an additional (*marginal*) one.

Johnny's Personal Value of Apples	
Number of Apples per Day	Personal Value
1st	\$1.00
2nd	\$.80
3rd	\$.50
4th	\$.30
5th	\$.20
6th	\$.10

The following figure plots the numbers in the table on a graph and connects the points with straight lines. The graph shows Johnny's *demand* for apples. If the price of apples is \$.50 each, how many apples would Johnny buy? He would surely buy at least one because the first apple is worth \$1.00 to him. Its value is greater than the price he pays, so it makes sense for him to buy it.

For the same reason he would also buy a second apple. Valued at \$.80, it, too, is worth more to him than the price he pays. But what about the third apple? Here Johnny's personal value of \$.50 is equal to the apple's price, so he would neither gain nor lose by buying it. He may or may not buy this additional apple, but he certainly would buy *no more* than 3 apples per day. If he bought a fourth one, for example, he would pay more than the apple is worth to him. As a result, the *maximum* number of apples Johnny would buy at a price of \$.50 is 3.

Johnny's Personal Value and Demand for Apples



Now, suppose the price drops to \$.20 per apple. In this case, Johnny would buy a maximum of 5 apples per day. For any given price, then, you can determine the maximum number of apples Johnny will buy. This is why the line shows Johnny's demand for apples. But it also shows his personal value of apples. That's not surprising, of course, because personal value goes with demand the way apples go with pie.

3. DEMAND

Name _____ Date _____

Questions for Understanding

1. The table shows that Johnny's personal value of the first apple is \$1.00, and his personal value of a second apple is \$.80. This means his total value of both apples is \$1.80. Use the first table to answer these questions.
 - a. What is Johnny's personal value of a fourth apple? _____
 - b. What is his total value of having four apples? _____
2. Suppose the price of apples is \$.30 each. Using the graph, what is the maximum number of apples Johnny would buy each day? Why wouldn't he want to buy more than this quantity?

3. Explain how the graph shows the price effect as it relates to demand.

4. Describe an instance in which you bought a CD, a movie ticket, a pizza, or some other product. What price did you pay, and what quantity did you buy? Assuming you had the money, why didn't you buy more of the product at that price?

Challenge Question

5. Johnny can eat apples or give them away. He can use them to make applesauce, apple juice, apple crisp, apple fritters, or apple pie.

a. Do you think apples have the same value to Johnny in all these possible uses? Explain.

- b. Suppose the price of apples is \$.90 each. Does the price cause Johnny to exclude using apples for all uses he values less than the price?

3. DEMAND

Name _____ Date _____

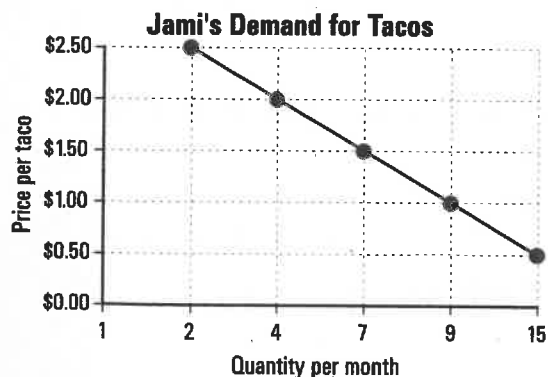
CHAPTER 3 REVIEW

Matching Questions: Match each item in Column A with its definition in Column B.

Column A	Column B
___ 1. demand	a. Describes how much a change in price affects the quantity demanded.
___ 2. buying power	b. Something used in place of a particular product.
___ 3. price elasticity of demand	c. People want to buy more of a product when its price falls.
___ 4. diminishing marginal utility	d. The various amounts of something a person is willing and able to buy at different possible prices.
___ 5. change in demand	e. The point reached when the next item consumed is less satisfying than the one before.
___ 6. price effect	f. Items that people typically use together, such as peanut butter and jelly.
___ 7. market demand	g. The amount of a product you can buy with your money.
___ 8. substitute good	h. People want to buy less of a product at all possible prices.
___ 9. complementary good	i. The sum of all individuals' demands in a given market.
___ 10. total revenue	j. A product's price multiplied by the number of units sold.

Multiple Choice: In the space provided write the letter of the item that best completes the statement.

- ___ 1. Which of the following best describes the way economists view people's gasoline purchases?
- People need gasoline.
 - There are no substitutes for gasoline, so people will pay any price to maintain consumption at a given level.
 - both of the above.
 - none of the above.



Questions 2-5 are based on the preceding graph.

- ___ 2. Jami's demand for tacos
- depends on the price he must pay.
 - is seven tacos per month.
 - is shown by the entire demand curve.
 - is 15 tacos per month, since this is the largest quantity he will buy.
- ___ 3. If the price of tacos rises from \$.50 to \$1.50,
- Jami will want to buy eight fewer tacos per month.
 - The demand curve will shift to the left.
 - Jami's demand for tacos is elastic.
 - none of the above.
- ___ 4. The graph shows
- the price effect.
 - a change in demand.
 - increasing personal value.
 - all of the above.

Name _____ Date _____

- ___ 5. The demand for a good is elastic when
- total revenue increases with each decrease in price.
 - total revenue decreases with each decrease in price.
 - price changes have no effect on total revenue.
 - the demand curve shifts to the right.
- ___ 6. Which of the following items is likely to have the most inelastic demand?
- Salt
 - Chocolate-covered doughnuts at Doni's Donuts at the corner of 5th and Avalon
 - Home computers
 - Broccoli
- ___ 7. Pizza Villa increased the price of its deluxe pizza from \$10.50 to \$11.00. As a result of this increase in price, total sales for deluxe pizzas increased by \$1,000 in one month. The demand for the product was probably
- elastic.
 - inelastic.
 - diminishing.
 - increasing.
- ___ 8. If the price of water increases,
- the demand for desert-type landscaping will shift to the left.
 - the demand for water will shift to the left.
 - the demand for water-saving shower heads will shift to the right.
 - the demand for bath soap will shift to the right.
- ___ 9. Which of the following is likely to increase the demand for peanut butter?
- Fewer children in the population.
 - News that insects have destroyed much of the peanut crop.
 - A big increase in the price of jelly.
 - A report from the Surgeon General of the United States that eating peanut butter makes people nutty.
- ___ 10. Waste disposal companies begin charging households more for each can of garbage they collect. Which of the following is least likely to happen as a result?
- The amount of household wastes remains the same.
 - Households recycle more.
 - Households move up their demand curves for waste disposal services.
 - Households demand fewer packaging materials in the goods they buy.

Questions for Economic Reasoning and Discussion (Write answers on a separate sheet of notebook paper.)

- The price of water increases dramatically. Do you think the higher price will reduce the quantity of water that households use? Explain your reasoning.
- Why did sales of big automobiles decline as the price of gasoline went up in the 1970s and early 1980s? Explain why this represents a shift in demand rather than the price effect.
- Imagine that you sell TVs. Explain how the principle of diminishing personal value affects your ability to sell your customers a second or third TV set.
- If you owned an ice cream shop at a seaside resort and additional ice cream shops were opening in your area, how would you introduce substitute products to compete more effectively? How could you apply the concept of price elasticity of demand when deciding whether to raise prices for your specialty items, such as shakes, sundaes, and banana splits?

NAME: _____

SUPPLY ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

SUPPLY

- _____ at each selling price
- The amount _____ point

SUPPLY SCHEDULE

- _____ at every price point in the market

SUPPLY CURVE

- _____ at each price point in the market and is labeled – ____
- Graph of _____
- Slopes _____
- Shows that _____ are available as the _____

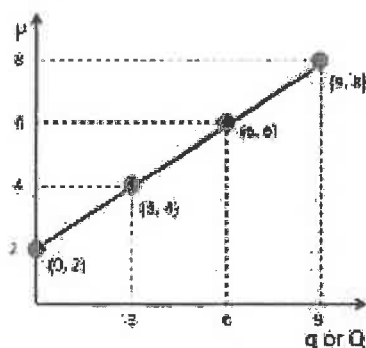
LAW OF SUPPLY

- _____ price = _____ suppliers offer for sale
- _____ prices = _____ suppliers offer for sale
- _____ work together in a _____

QUANTITY SUPPLIED

- The amount _____ by a producer at a certain price

Price	Quantity Supplied
\$2	0
\$4	3
\$6	6
\$8	9



Explain the relationship between availability and supply:

NAME: _____

SUPPLY ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

CHANGE IN QUANTITY SUPPLIED

- _____ based on the _____.

CHANGE IN SUPPLY

- Producers _____, or amounts, of products at all prices in the market.
- Prices _____, quantity supplied _____
- Prices _____, quantity supplied _____
- **Cost of Inputs** → _____, _____ the price.
- **Productivity** → _____ as _____ of workers _____
- **More technology** = _____ in supply
- Supply increases as _____
- **Taxes & Subsidies** (_____ to people or businesses to make or sell a good/service) _____
- **Future** _____ for a need
- _____ or number of producers

ELASTICITY OF SUPPLY

- _____ measures the _____ that is the result of a _____

What can change the supply available?

How are quantity supplied and price related?

NAME: _____

SUPPLY ECONOMICS

GUIDED NOTES

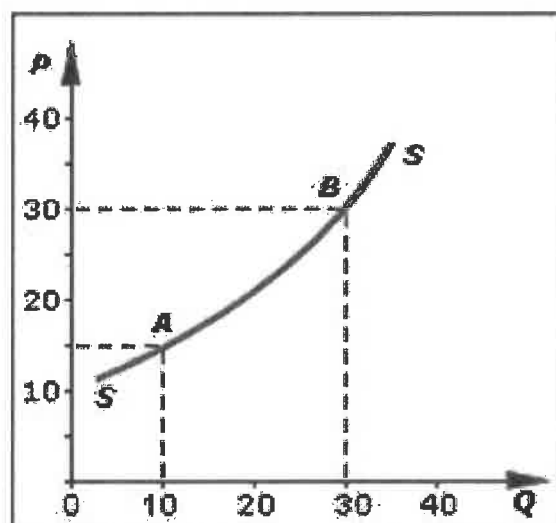
THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

ADVANTAGES OF PRICES

- _____
in the marketplace
- The three basic economic questions that are affected by price:
 - 1- _____
 - 2- _____
 - 3- _____
- _____ are the _____ of competition in the marketplace between _____

MARKET _____ CURVE

- Shows the _____
that will be offered at each _____ price



FLEXIBILITY OF PRICES

- When new prices are listed, buyers and sellers
_____ actions and production
actions.

NAME: _____

SUPPLY ECONOMICS

GUIDED NOTES

FREEDOM OF CHOICE

- All _____ which products they will purchase and if a products price is too high, they can _____.

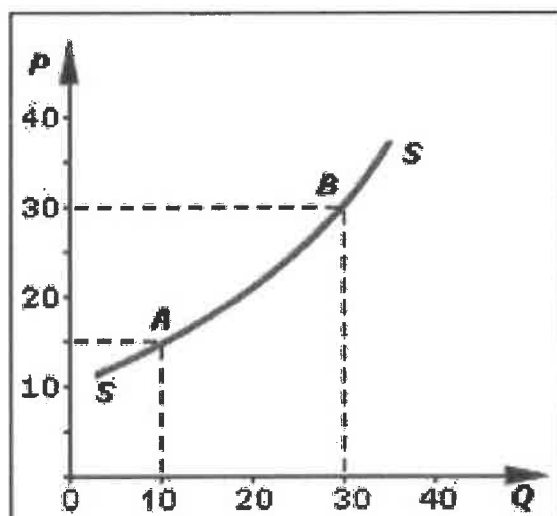
LABOR AND SUPPLY

- Labor can _____
- Their: _____
- Their _____
- Their _____
- Their _____
- _____ → Focus on one specific skill
- _____ can cause disorganization and create a _____
- _____ → Additional worker causes output to grow, but at a _____

COST OF PRODUCTION

- _____ → Expenses _____ you produce (cost of building)
- _____ Costs → Vary _____ you produce
- Total Costs → _____
- Marginal Costs → _____ unit produced

SUPPLY CURVE



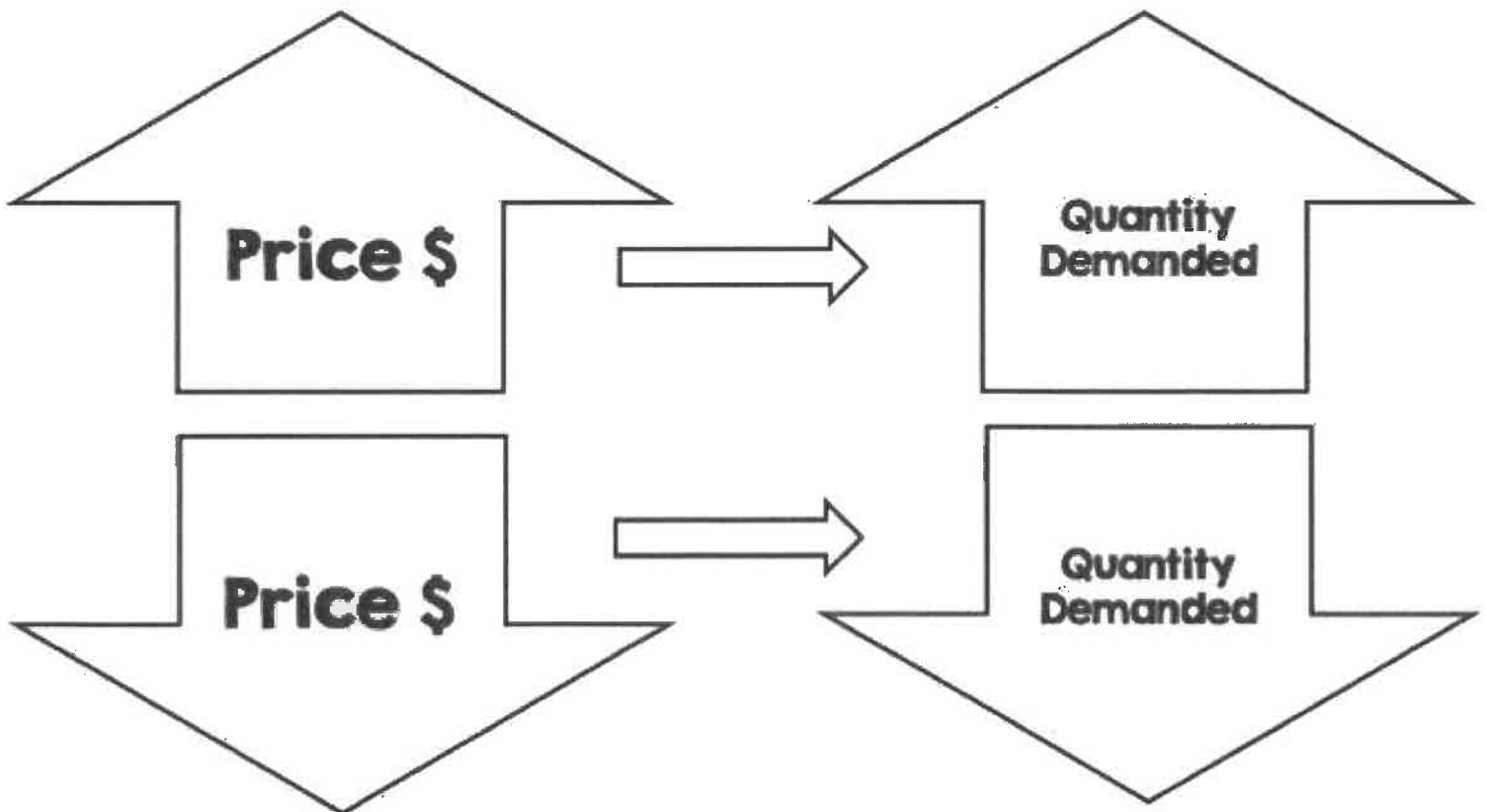
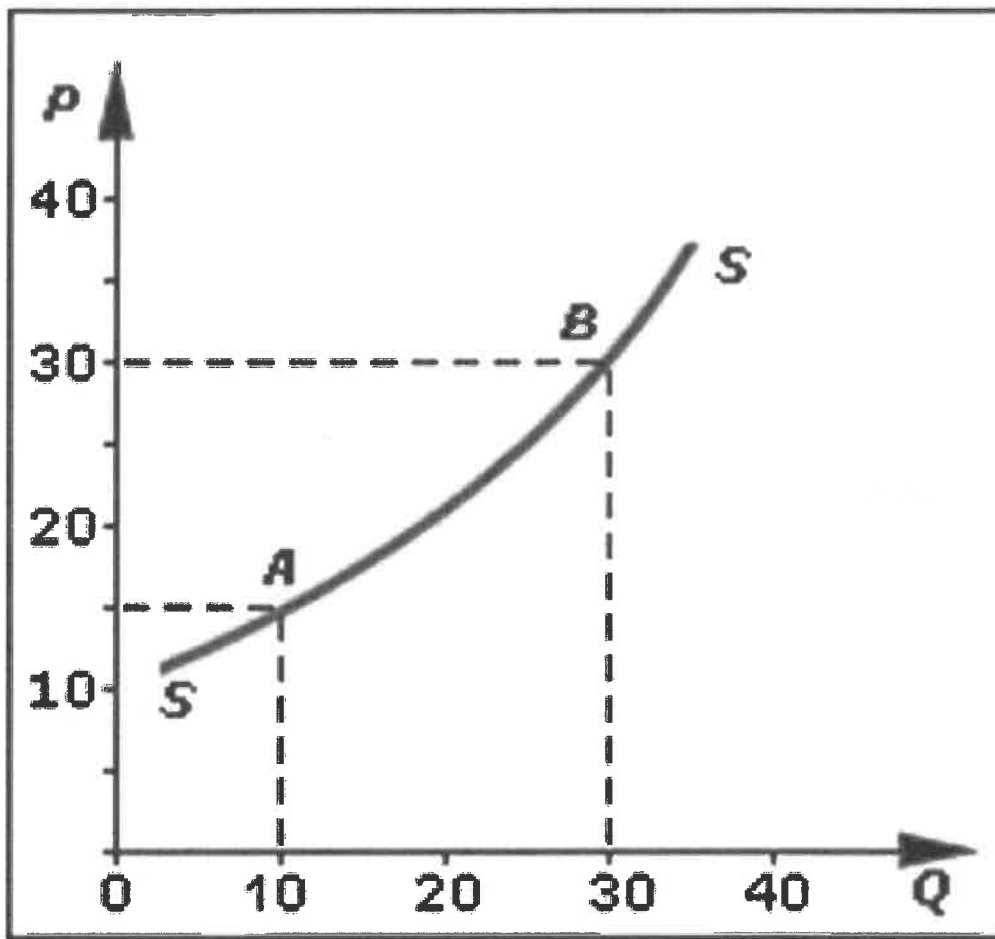
THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

What role do consumer play in the marketplace?

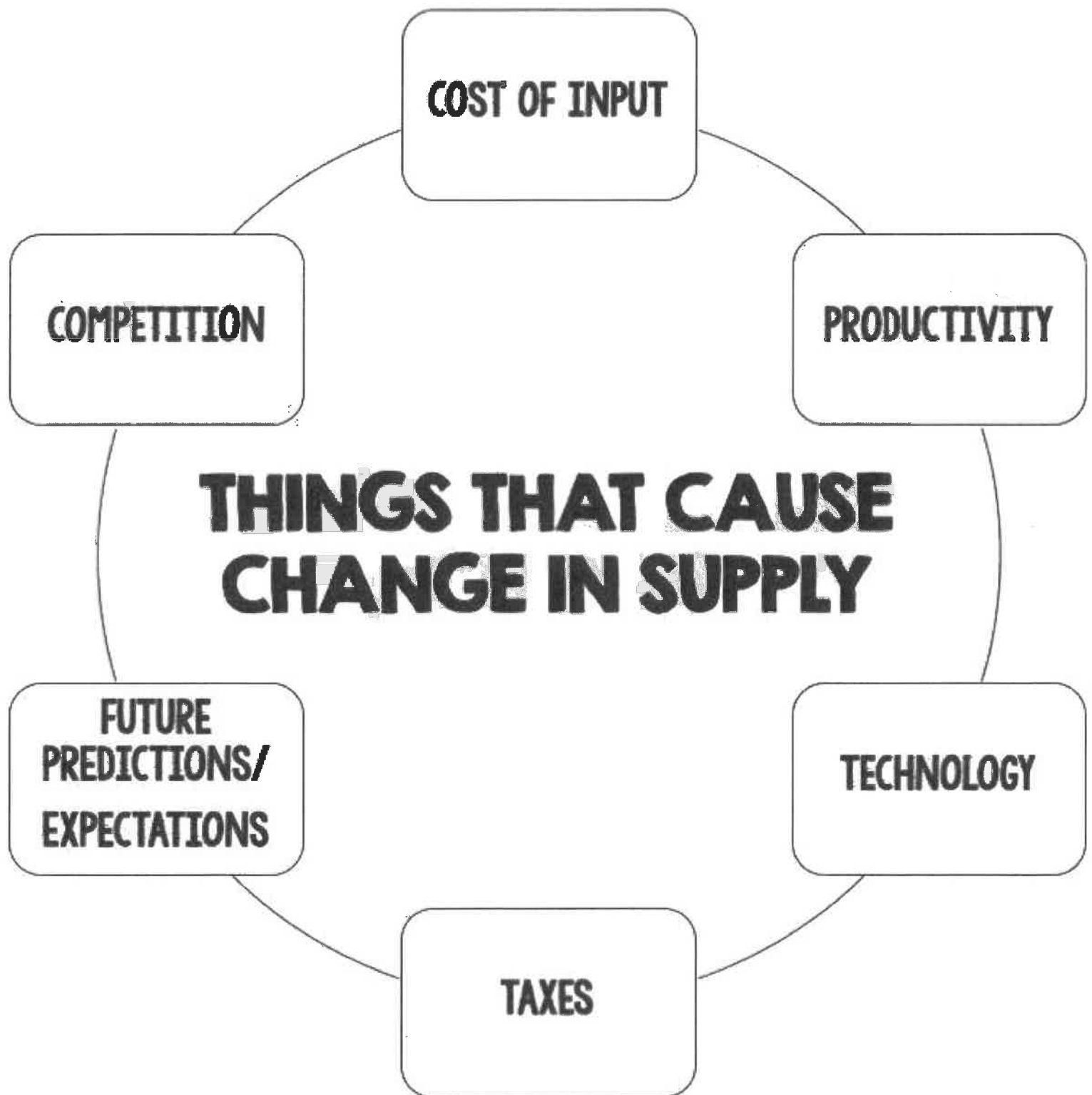
How can labor availability affect supply?

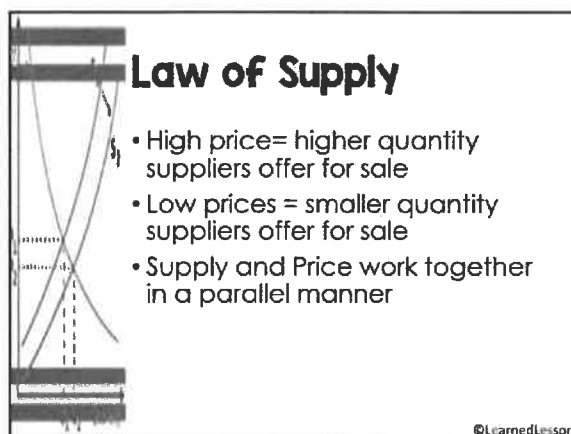
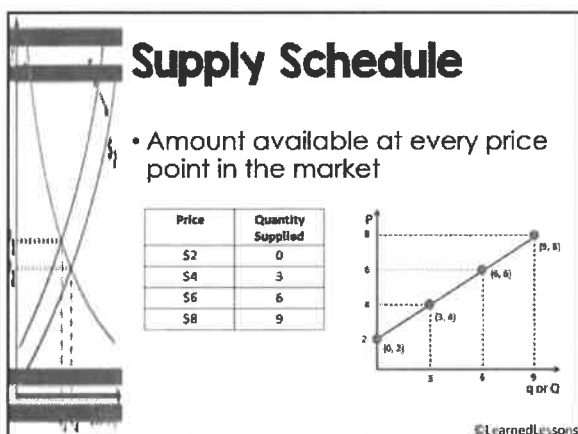
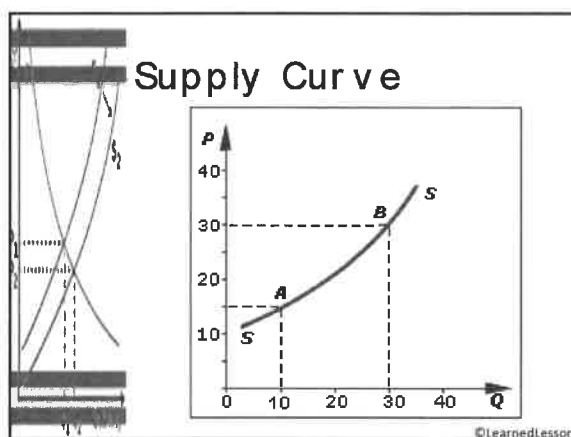
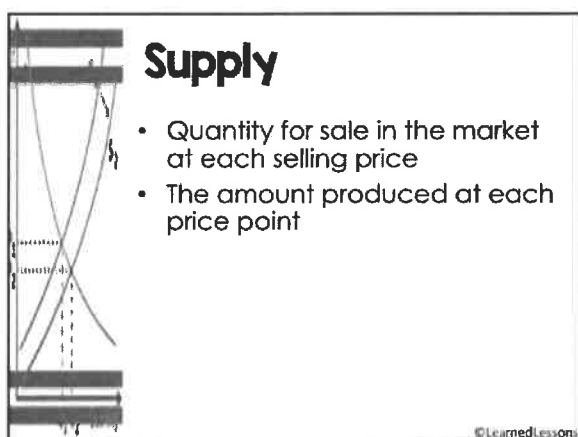
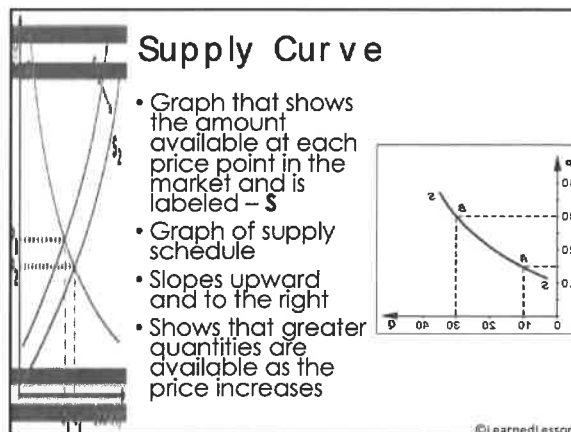
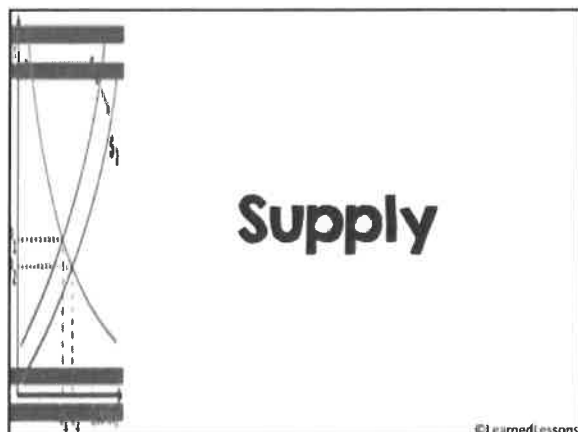
What are costs of production?

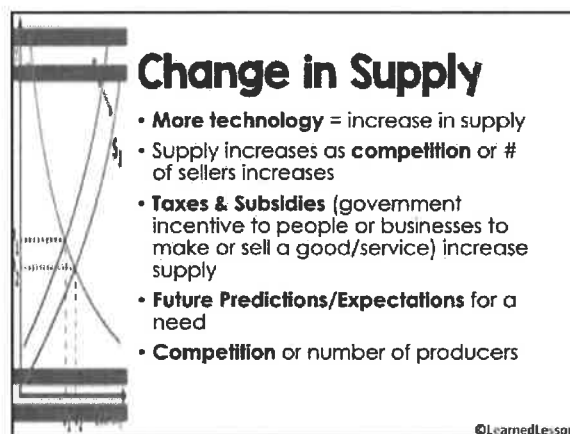
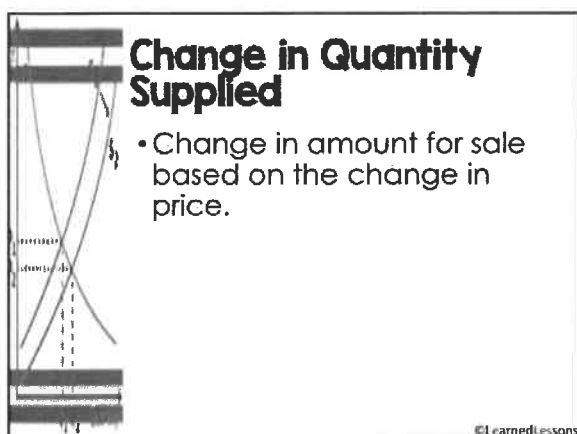
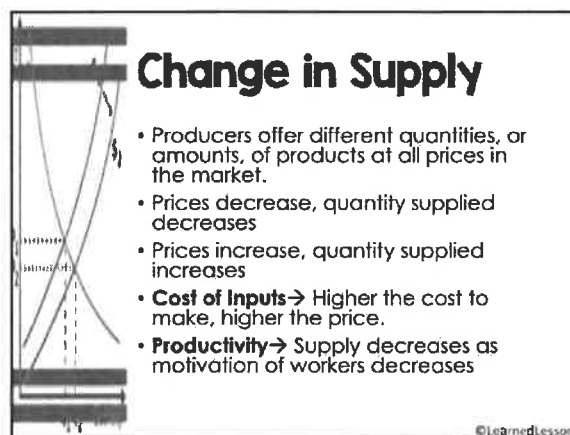
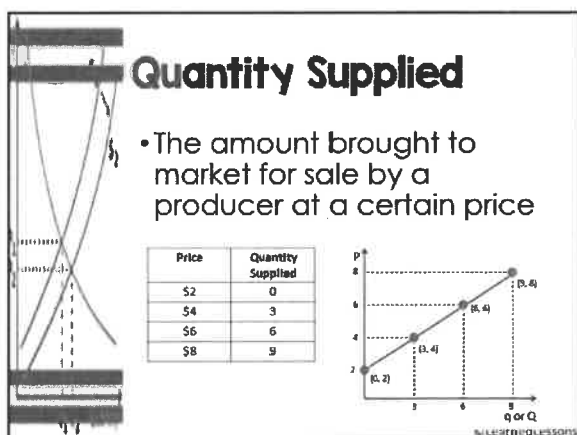
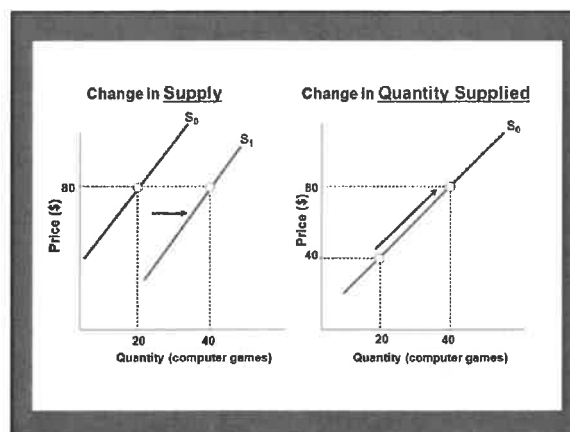
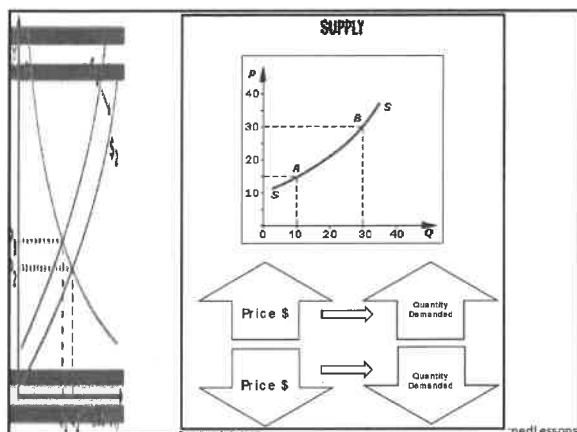
SUPPLY

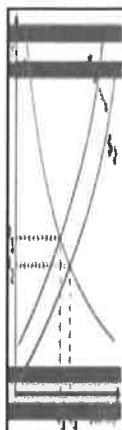


SUPPLY CHANGES










Elasticity of Supply

- Supply elasticity measures the amount/quantity supplied that is the result of a change in price

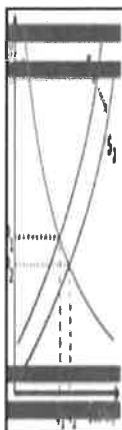
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Flexibility of Prices

- When new prices are listed, buyers and sellers adjust to the new price level with their purchasing actions and production actions.


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Advantages of Prices

- Price connects producers and consumers in the marketplace
- The three basic economic questions that are affected by price:
 - 1-What to produce?
 - 2- How to produce it?
 - 3- For whom to produce it?
- Prices are the affect/result of competition in the marketplace between buyers and sellers


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Freedom of Choice

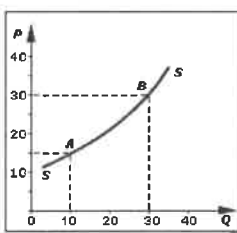
- All consumers choose which products they will purchase and if a products price is too high, they can find a less costly option.

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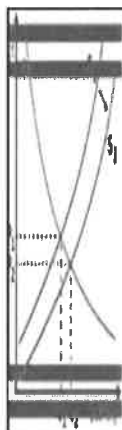


Market Supply Curve

- Shows the quantity of product/service that will be offered at each market price



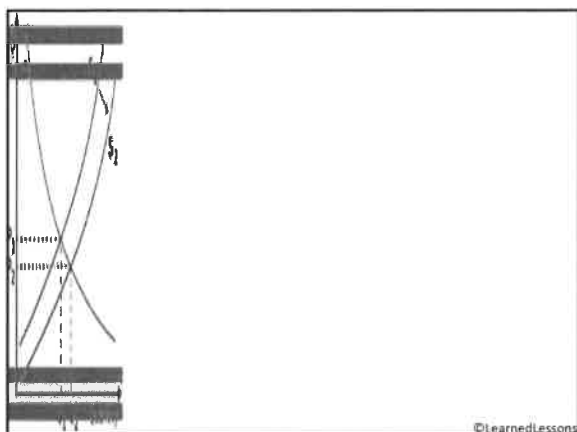
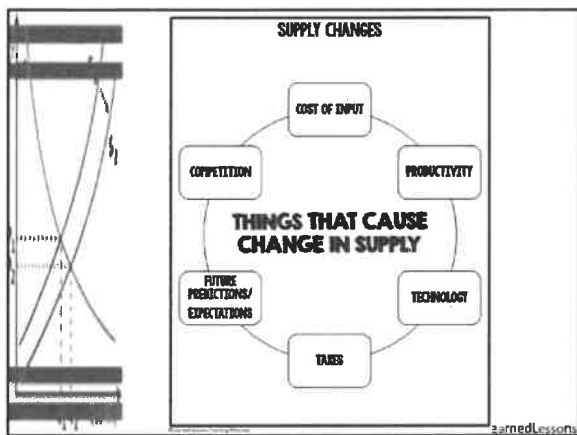
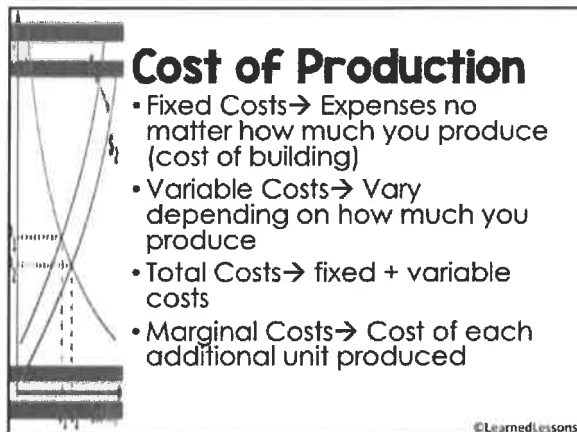
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Labor and Supply

- Labor can affect supply
 - Their availability
 - Their dependability
 - Their costs
 - Their training
- Specialization → Focus on one specific skill
- Too many employees can cause disorganization and create a diminishing return
- Diminishing return → Additional worker causes output to grow, but at a decreasing rate

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Name _____

SUPPLY**4**

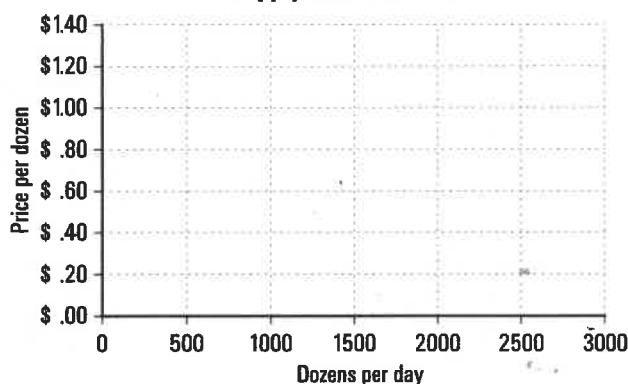
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**ECONOMIC SKILLS LAB
PLOTting SUPPLY CURVES**

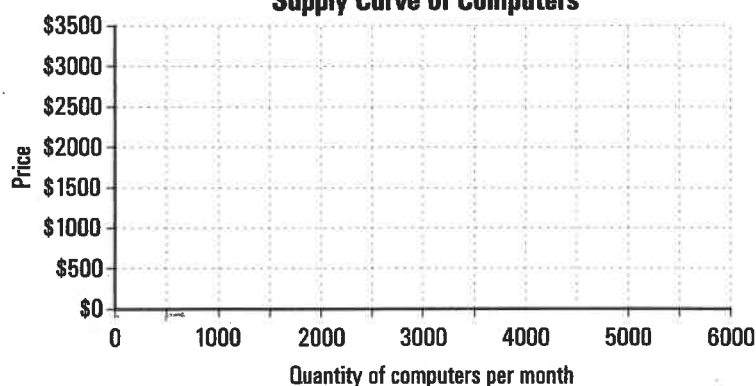
Examine the two supply schedules that follow and plot the supply curves. Then answer the questions that follow.

Supply Schedule for Tortillas

Price	Quantity Supplied (dozen per day)
\$.60	500
\$.80	1,500
\$1.00	2,000
\$1.20	2,500
\$1.40	3,000

Supply Curve of Tortillas**Supply Schedule for Computers**

Price	Quantity Supplied (per month)
\$1,000	1,000
\$1,500	2,500
\$2,000	3,500
\$2,500	4,000
\$3,000	4,500
\$3,500	5,000

Supply Curve of Computers**Questions for Understanding**

- If the price of tortillas is \$1.20 per dozen, how many dozen will suppliers offer for sale? _____
- If the price of tortillas is \$.80 per dozen, how many dozen will suppliers offer for sale? _____
- If the quantity of computers offered for sale is 2,500, what is the price per computer? _____
- If the quantity of computers offered for sale is 5,000, what is the price per computer? _____
- How many computers will suppliers offer for sale at \$1,000? _____
- How many computers will suppliers offer for sale at \$3,500? _____
- What effect does the price seem to have on the quantity suppliers offer for sale? _____
- Calculate total revenue (price x quantity)
 - if the price of tortillas is \$1.00 each: _____
 - if 1,000 computers are sold each month: _____
 - if the price of computers is \$2,500 each: _____

Name _____ Date _____

ECONOMIC SKILLS LAB**THE AMAZING TORTILLA-INTERPRETING DATA**

When The Amazing Tortilla Company first opened, its owner hoped to sell about 1,000 dozen tortillas daily. To produce this quantity, the owner rented a building and purchased the needed equipment.

The owner wasn't sure if people would buy the tortillas, so the business was risky. Fortunately, customers loved the fresh taste of homemade corn tortillas. The business sold all it could make, so it continually expanded its daily production.

At first the business could increase production without raising its marginal cost of \$.50 a dozen. (Marginal cost is the cost of producing each *additional* dozen.)

As production continued to expand, however, the owner had to work the equipment harder and longer each day. This caused more breakdowns and led to additional repair expenses. Hiring more workers also began to crowd the limited equipment. And the owner had to spend even more time at the business making sure that everything worked properly and that orders were shipped on schedule. As a result, the company's marginal cost of tortillas began to rise as daily production increased. The table shows the owner's estimate of marginal cost.

Marginal Cost of Producing a Dozen Tortillas at the Amazing Tortilla Company	
Dozens per day	Marginal cost
up to 500	\$0.50
501 to 1,000	\$0.50
1,001 to 1,500	\$0.75
1,501 to 2,000	\$0.75
2,001 to 2,500	\$1.00
2,501 to 3,000	\$1.00

Answer each of the following questions:

1. Suppose the business could charge no more than \$0.60 per dozen. How many tortillas do you think the business would want to produce each day at that price? Why?

2. If the price increased from \$0.60 per dozen to \$0.80 per dozen, would the business want to sell more tortillas each day? Why?

3. Suppose the business could charge no more than \$0.40 per dozen for its tortillas. What do you think would happen? Why?

4. Do the decisions in questions 1-3 illustrate the price effect or a change in supply? Explain.

4. SUPPLY

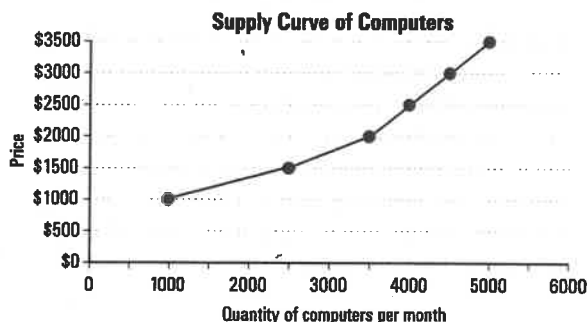
Name _____

Date _____

ECONOMIC SKILLS LAB

TABLE TALK—INTERPRETING DATA

The following graph presents the monthly supply of computers.



1. Use the graph above to complete the first two columns of the following table.

Monthly Supply of Computers		
Price per Computer	Quantity per Month	New Quantity per Month
\$1,000	1,000	2,000

2. Assume that 1,000 more computers are supplied at each and every price. Complete the third column of the table and use the information to plot the new supply curve on the graph.
- Suppose the price of computers had been \$2,500 before the supply curve shifted. How many computers were supplied at that price? _____
 - Suppose the price of computers is \$2,000 after the supply curve shifts. How many computers are supplied at this lower price? _____
 - More computers are produced and sold at the lower price than at the higher price. Does this mean the price effect doesn't apply to the supply of computers? Explain.

3. Briefly describe one or two factors that could cause the supply curve to shift as shown in the graph above.

4. SUPPLY

Name _____

Date _____

CHAPTER 4 REVIEW

Matching Questions: Match each term in Column A with its definition in Column B.

Column A	Column B
___ 1. marginal cost	a. Exists when the price effect is substantial.
___ 2. supply	b. Business people bear this when producing things we want.
___ 3. elastic supply	c. Usually rises as the rate of production increases.
___ 4. market supply	d. People want to buy more of a product when its price rises.
___ 5. decrease in supply	e. The various amounts of something a producer is willing and able to sell at different possible prices.
___ 6. price effect	f. Producers want to sell more at higher prices than at lower prices.
___ 7. expectations of higher future prices for a product	g. Causes the supply curve to shift to the right.
___ 8. more efficient equipment	h. Exists when the price effect is small.
___ 9. opportunity cost	i. People want to sell less of a product at all possible prices.
___ 10. inelastic supply	j. The sum of all producers' supplies in a given market.
	k. Can cause today's supply curve to shift to the left.

Multiple Choice: In the space provided write the letter of the item that best completes the statement.

- | | |
|--|---|
| <p>___ 1. When something is produced, there is always</p> <ul style="list-style-type: none">a. a buyer.b. an opportunity cost.c. an elastic supply.d. a profit. <p>___ 2. Producers usually sell more at higher prices than at lower prices because</p> <ul style="list-style-type: none">a. their marginal costs usually drop as production increases.b. they don't have to worry about marginal production costs.c. their marginal costs usually rise as they increase production.d. they want the excess profit that comes from producing additional quantities at lower costs. | <p>___ 3. Company A can produce a product at a constant marginal cost. This means that</p> <ul style="list-style-type: none">a. the company's total cost does not rise as it increases production.b. the company's total cost rises by the same amount every time it increases production by one unit.c. the company can earn a profit no matter what price it charges.d. none of the above. |
|--|---|

Name _____

Date _____

Questions 4-6 are based on the following table, which assumes that there are three businesses in the ice cream market.

Daily Supply of Ice Cream (in gallons)				
Price per Gallon	Business A	Business B	Business C	Market Supply
\$6	10	6	8	24
\$5	9	5	6	20
\$4	7	4	5	—
\$3	5	3	4	12
\$2	2	2	1	5
\$1	1	1	1	3

- _____ 4. In the last column the amount supplied by the market at a price of \$4 is missing. The missing quantity is
- 19
 - 15
 - 10
 - none of the above.
- _____ 5. Business A's supply of ice cream
- is 10 gallons per day.
 - is shown by the entire column of numbers for Business A.
 - depends on the price the business receives for its ice cream.
 - cannot be determined from the information given.
- _____ 6. Suppose the costs of milk and other ingredients of ice cream rise sharply and the marginal cost increases. As a result,
- each business would want to sell a smaller quantity at every price shown, so the market supply would shift to the left.
 - each business would want to sell a larger quantity at every price shown, so the market supply would shift to the right.
 - each business would want to sell more ice cream to maintain its profit.
 - the market supply would remain unchanged.
- _____ 7. If the price of beef rises and remains at the higher level, then over time the supply of beef
- becomes more inelastic because producers get used to the higher price.
 - shifts to the left.
 - becomes more elastic because ranchers have more time to bring resources into cattle production.
 - remains unchanged.
- _____ 8. Which of the following would not shift the supply curve of car-washing services to the right?
- Businesses introduce more efficient washing and drying equipment.
 - Workers at car washes become able to wash more cars per hour than before.
 - The price of water goes up.
 - The number of car-washing businesses increases.
- _____ 9. A supply curve shows that in a market economy consumers get more of a product by
- paying lower prices until producers give them more of what they want.
 - having government force businesses to produce more.
 - writing letters to convince businesses to increase production.
 - offering producers more money in exchange for the product.
- _____ 10. If bad weather destroys much of the Halloween pumpkin crop, then
- the price effect will cause growers to sell fewer pumpkins at lower prices.
 - growers will offer fewer pumpkins at each and every price.
 - both of the above.
 - none of the above.

NAME: _____

PRICE, SUPPLY, DEMAND

ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

THE _____ SET
PRICES IN THE MARKETPLACE.

FACTORS THAT _____ SUPPLY AND DEMAND

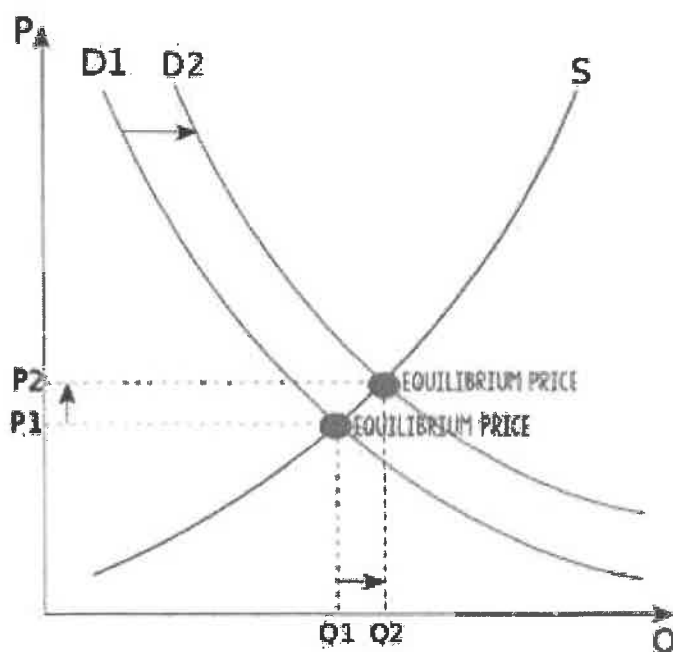
- _____
- _____
- _____
- _____
- _____ and _____ Goods

How are price, supply, and demand connected? Explain.

MARKET DEMAND AND SUPPLY SCHEDULE

Price (per pound)	Quantity Supplied (pounds)	Quantity Demanded (pounds)
\$7	80	30
\$6	70	45
\$5	60	60
\$4	50	75
\$3	40	90
\$2	30	105
\$1	20	120

MARKET DEMAND AND SUPPLY CURVE



NAME: _____

PRICE, SUPPLY, DEMAND

ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

MARKET _____

- _____
- Quantity (amount) of goods or _____ is _____
- No _____, No _____

SURPLUS

- Quantity _____ at each price point
- _____ or available than is needed or bought

SHORTAGE

- Quantity _____ than the quantity _____
- There is _____ produced or available.

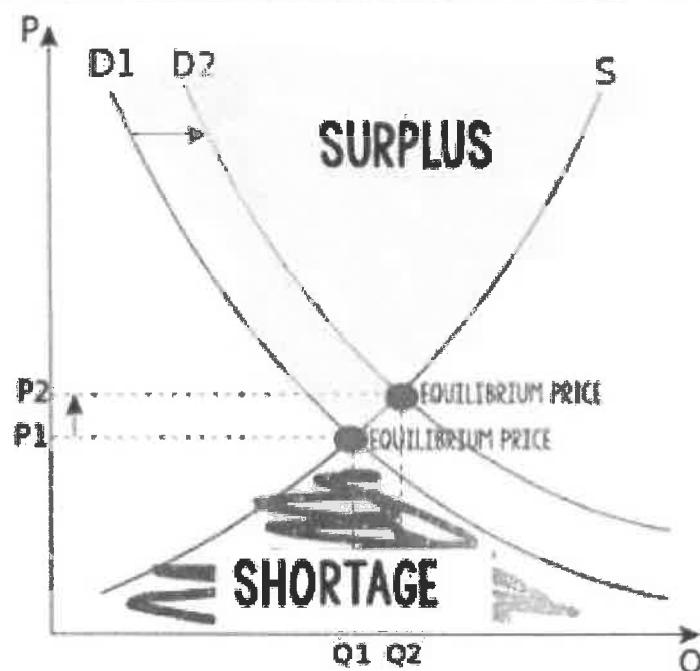
EQUILIBRIUM PRICE

- The _____
- There is _____, just enough

How can you get a surplus?

How can you get a shortage?

Explain equilibrium price?



NAME: _____

PRICE, SUPPLY, DEMAND ECONOMICS

GUIDED NOTES

THOUGHTS, REFLECTIONS, LINGERING QUESTIONS

_____ PRICES

- The _____ the _____ received or paid

PRICE _____

- This is the _____ that can be charged for a good or service
- Rents are often under "_____", and _____ to lower the price and keep it affordable in certain areas

PRICE _____

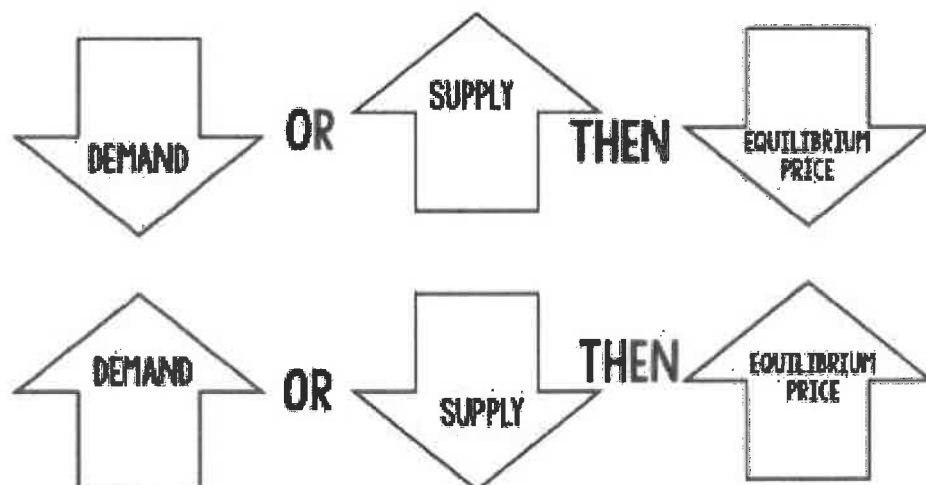
- The _____ that can be charged for a good or service
- _____ is the set amount of money that you _____. You can pay more, but never less

CHANGES

- If _____, the _____ changes.

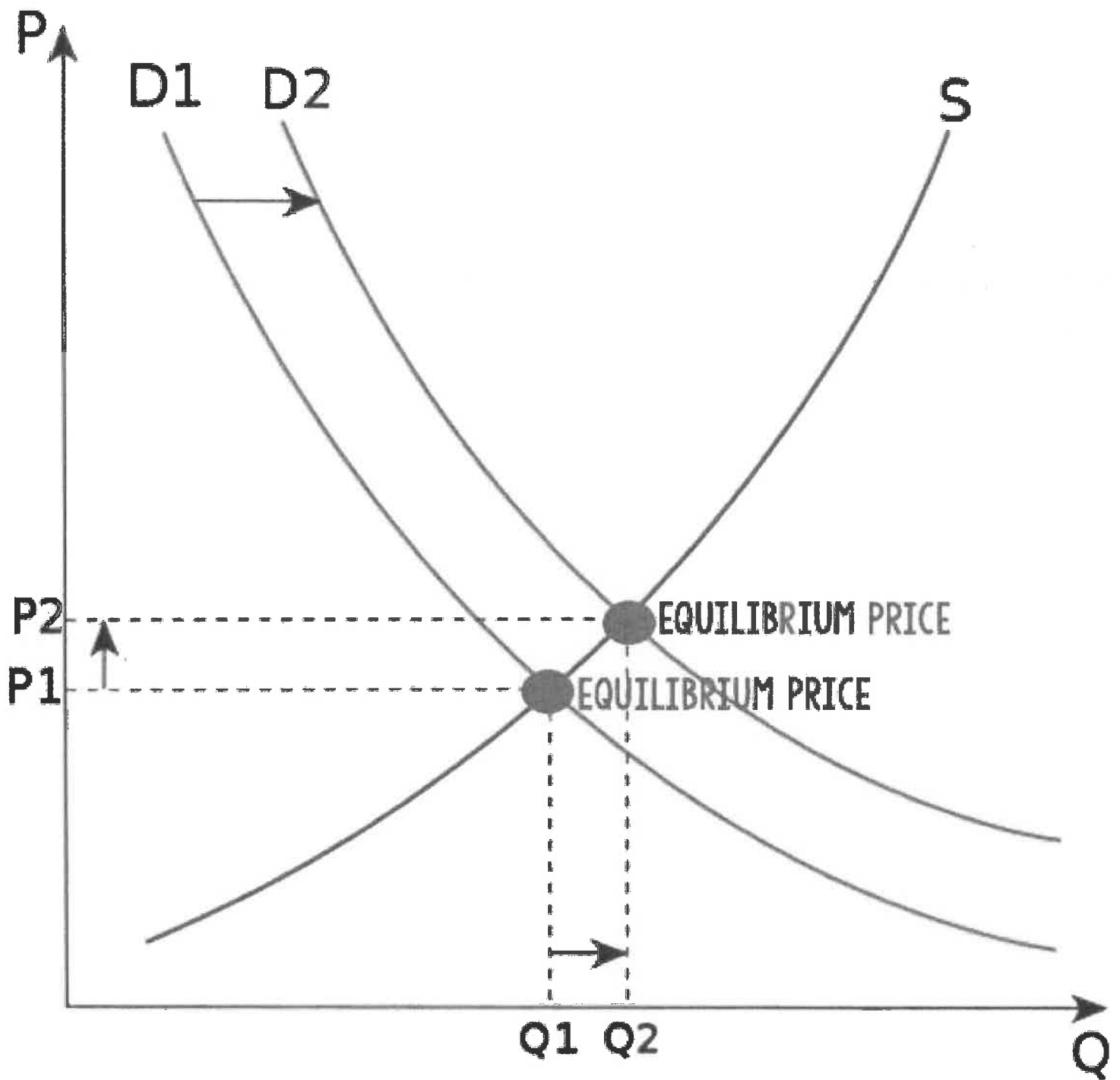
Explain a price ceiling:

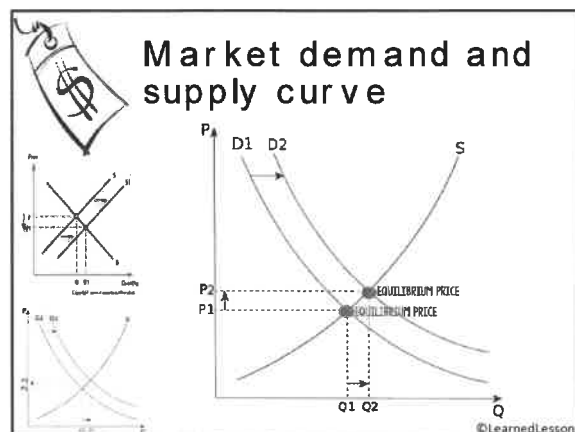
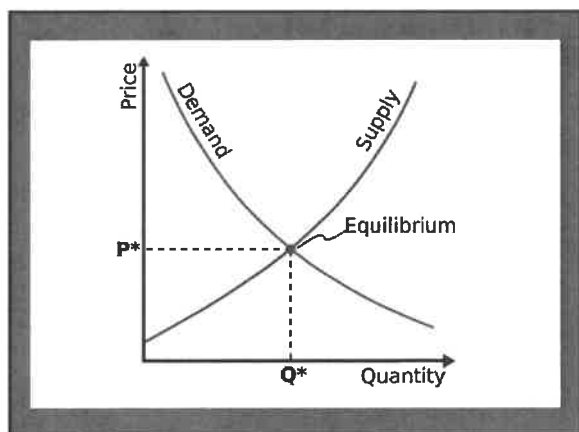
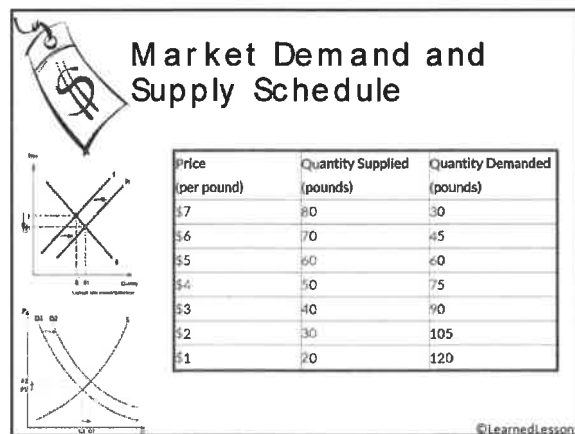
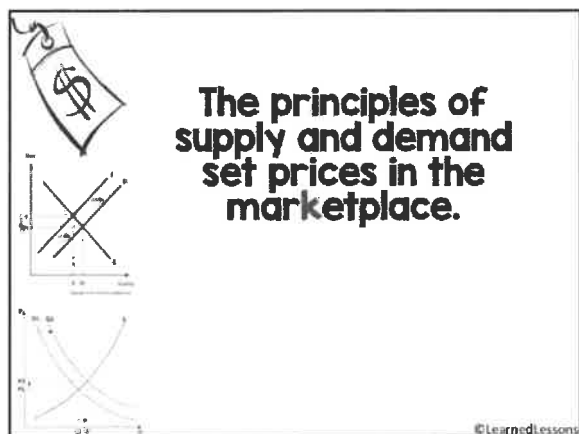
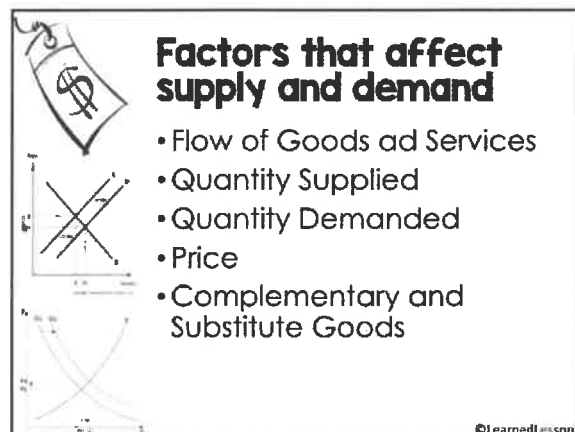
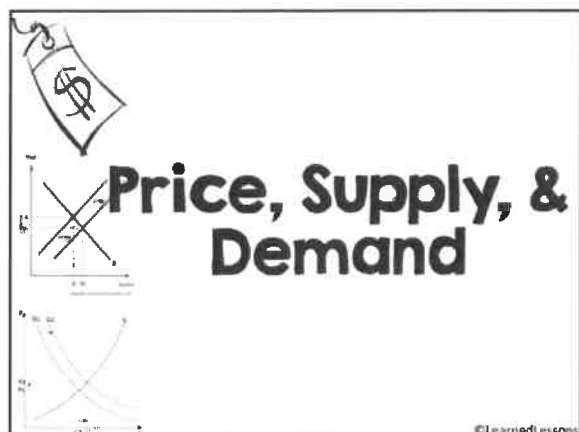
Explain the price floor:

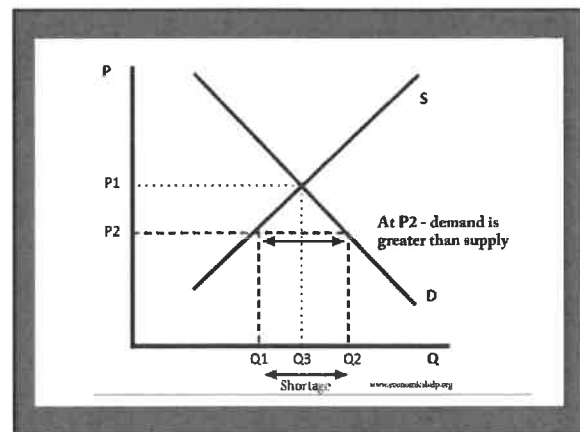
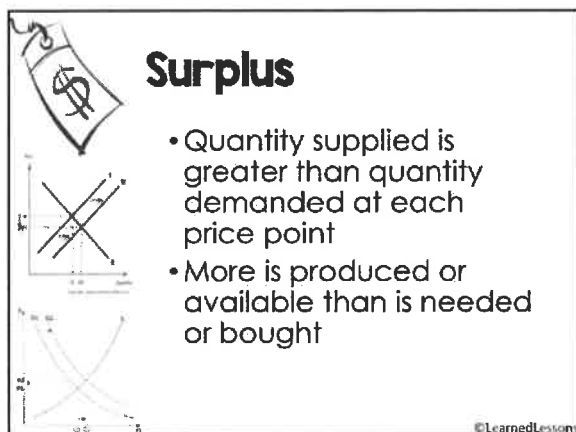
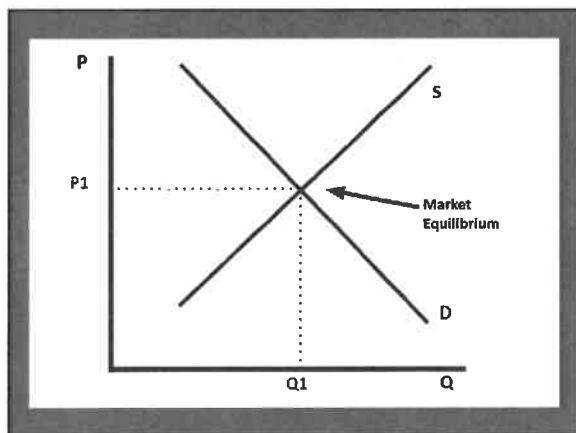
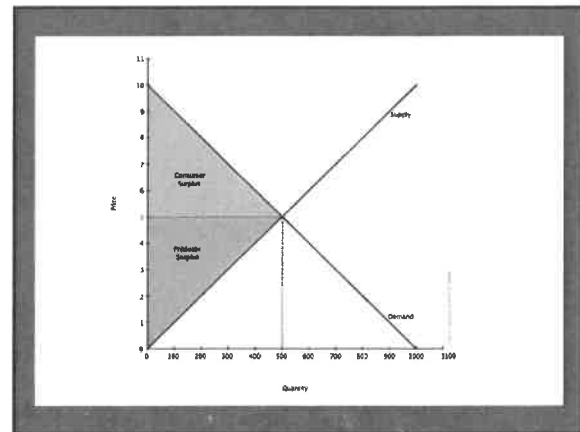
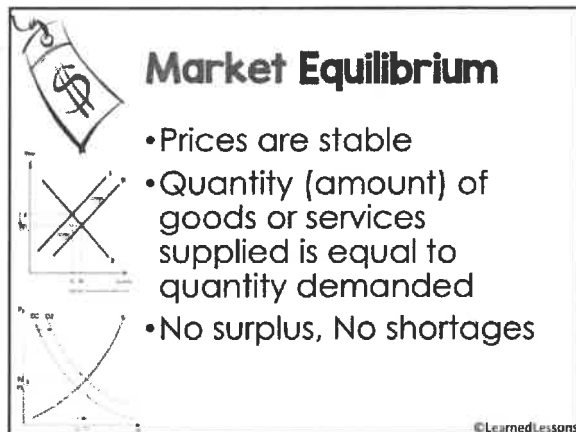


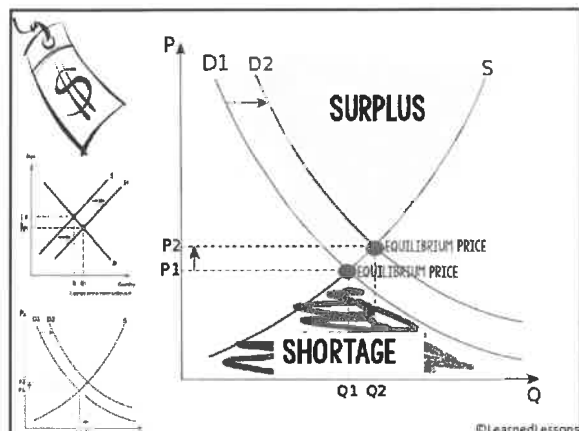
PRICE, SUPPLY, & DEMAND

JUST THE ESSENTIALS





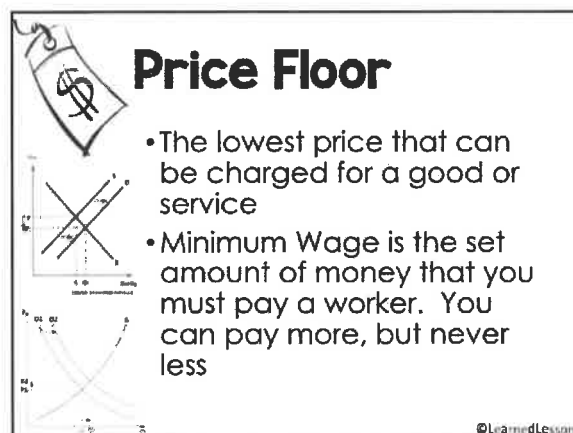
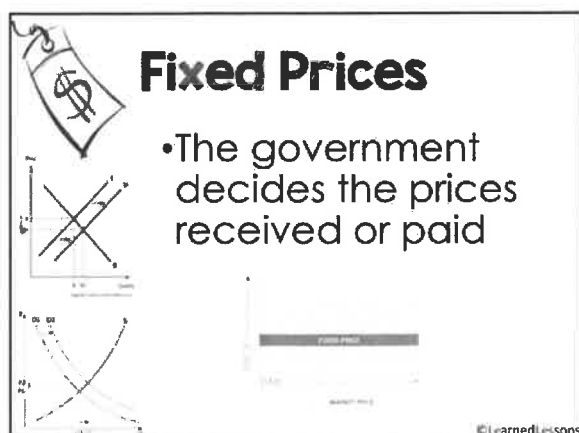
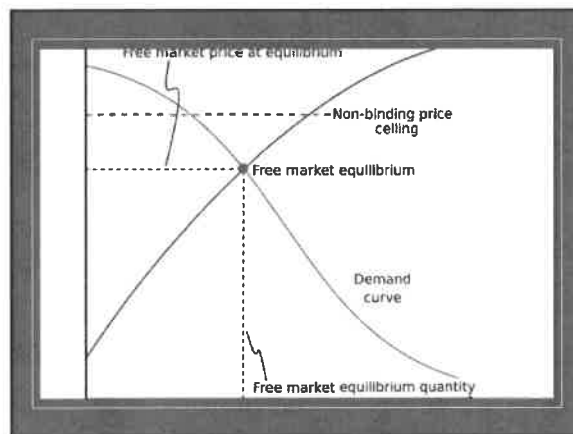
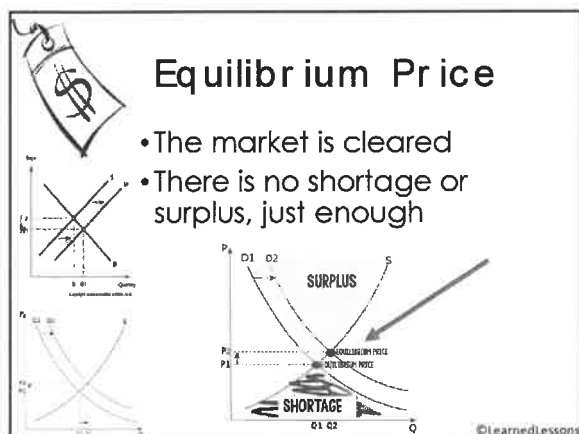


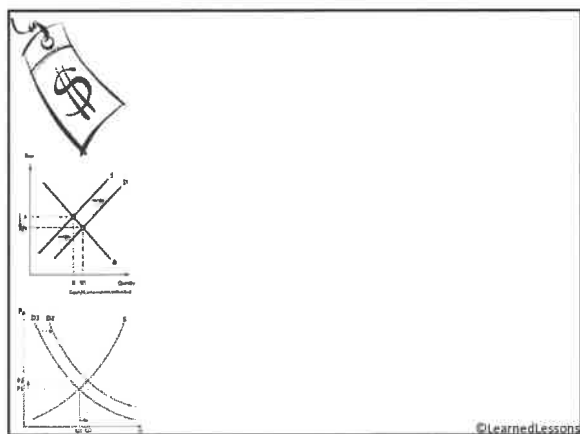
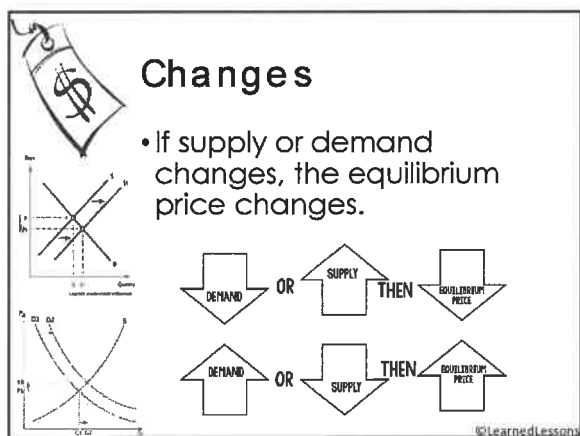
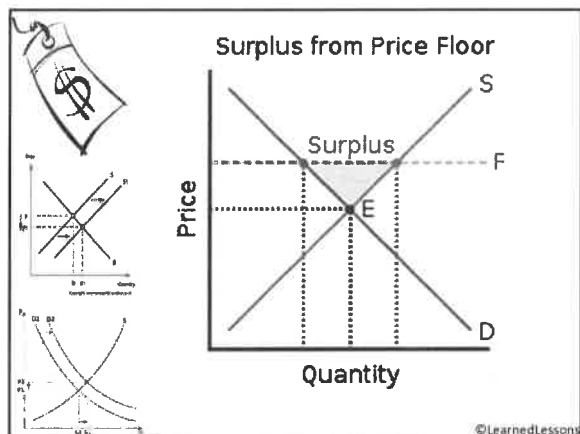


Price Ceiling

- This is the maximum price that can be charged for a good or service
- Rents are often under "rent control," and rates are capped to lower the price and keep it affordable in certain areas

A small supply and demand graph showing a horizontal line below the equilibrium price, labeled 'Price ceiling'. This line creates a shortage between the quantity demanded and the quantity supplied at that price. The graph is labeled '©LearnedLessons'.





Name _____

Date _____

**MARKET-CLEARING
PRICE**

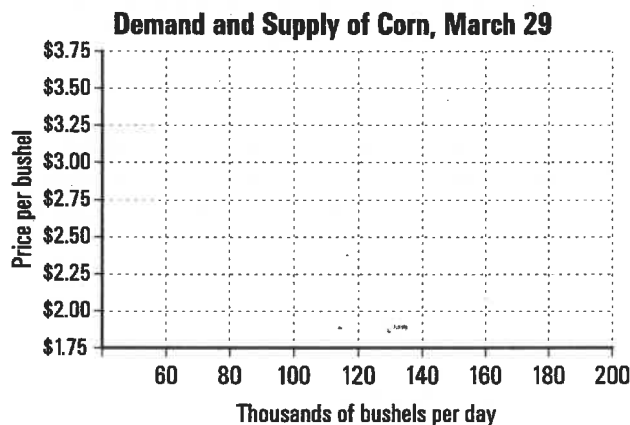
5

**ECONOMIC SKILLS LAB
ECONOMICS ON A GRAPH-GRAPHING**

The following table presents the demand and supply of corn on March 29.

DEMAND AND SUPPLY FOR CORN, MARCH 29		
Price per Bushel	Number of Bushels People Want to Buy (in thousands)	Number of Bushels People Want to Sell (in thousands)
\$3.50	80	200
\$3.25	100	180
\$3.00	120	160
\$2.75	140	140
\$2.50	160	120
\$2.25	180	100
\$2.00	200	80

Use the graph below to plot the demand for corn shown in columns 1 and 2 in the table. Connect the points and label the line "D." The line you have drawn is the *demand curve* for corn. Draw the supply curve in the same way by using columns 1 and 3. Connect the points to complete the *supply curve*. Label this curve "S."



- What is the market-clearing price of corn in the graph you have drawn?

- Suppose the price of corn is \$3.25 per bushel. Is there a shortage or a surplus of corn at that price? If so, how big is it?

- Suppose the price of corn is \$2.25 per bushel. Is there a shortage or surplus of corn at that price? If so, how big is it?

- If the price of corn is above its market-clearing level, there is a surplus. Does this mean corn is no longer scarce? Explain.

5. MARKET-CLEARING PRICE

Name _____ Date _____

ECONOMIC SKILLS LAB

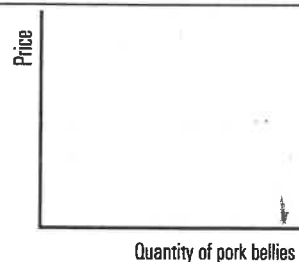
TWO STRIPS OF BACON ON A MARKET-CLEARING PRICE

The year of the bacon burger was 1995. It seemed as if every hamburger restaurant in the United States added a couple of strips of bacon to its burgers in that year. Two pieces may not sound like much, but when you multiply them by millions of burgers, they add up to a lot of bacon.

Bacon is made from slabs of uncured pork called pork bellies. Not surprisingly, the price of pork bellies rose by nearly 50 percent during 1995. Fortunately for bacon fans, the price increase was short-lived. After a couple of months, producers introduced more pork to the market, causing the price to fall back toward its original level.

1. Did pork bellies become scarcer during 1995? Explain.

2. Use this blank graph to draw your own demand and supply curves to show why the price of pork bellies soared during 1995. (Instead of plotting specific numbers for demand and supply, just sketch the appropriate curves.)



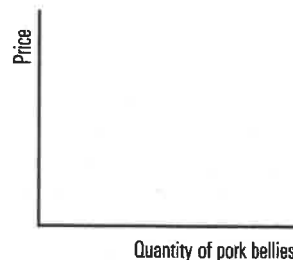
3. Refer to the graph you have drawn for each of the following:

- a. What pushed up the price of pork bellies?

- b. What would have occurred if the government had prevented the price of pork bellies from rising above its original level?

- c. Was the higher price the market's method of rationing available supplies? Explain.

4. Use this blank graph to show why the price of pork bellies dropped back toward its original level.



5. Besides illustrating the rationing function of market prices, the example also shows another important function of those prices. Explain that function.

Name _____ Date _____

Junior Achievement Inc.

The Economic News

Circulation 500,000

Ford Exceeds All Records

Ford Motor Company earned \$7.2 billion in 1999, more than any other automotive company in history, increasing revenue 13 percent to \$163 billion.

Ford attributes its success to its consumer-focused business strategy. Also, during 1999 Ford acquired Volvo and created the Premier Auto Group, which comprises Volvo, Jaguar, Lincoln, and Aston Martin, to drive growth in higher margin vehicle segments.

Ford also launched several highly successful products, including the Ford Focus, Mercury Sable, and Ford Taurus. The Focus was the first vehicle to be named Car of the Year by journalists in both North America

and Europe, and the Lincoln LS was named Motor Trend's Car of the Year.

While unit sales exceeded all sales records in 1999, Ford also reduced its total costs by \$1 billion.

Students Taste the Market

According to the *Digest of Education Statistics*, student interest in business has varied. In the late 1970s to mid-1980s, the number of undergraduate business majors grew rapidly, so business schools toughened requirements for the major.

Then, in the late 1980s and early 1990s, student interest in business declined. Many business schools eased requirements. With e-commerce and e-business, some analysts speculate a renewed interest

in business. It seems that even business schools have market-clearing prices for their services.

Black Gold

The Organization of Petroleum Exporting Countries (OPEC) announced a huge cut in crude oil production in March 1999. Prices at the gas pump in February of 1999 averaged just under \$1 per gallon. By mid-March 2000, prices had risen 50 percent and were predicted to double by the end of the year.

Compounding the issue with the decrease in oil production has been an increase in sales of sport utility vehicles (SUVs), which average about 12 miles to the gallon. A resurgence of the Asian markets has contributed to higher demand for oil as well.

In your answers to the following questions, be sure to demonstrate your understanding of demand, supply, and market-clearing prices.

1. Explain why Ford's revenue broke all records.

2. How can changes in demand and supply explain the increases and decreases in business school requirements mentioned in the article?

3. Predict what will happen if sales of fuel-efficient cars rise steadily.

5. MARKET-CLEARING PRICE

Name _____ Date _____

CHAPTER 5 REVIEW

Matching Questions: Match each term in Column A with its definition in Column B.

Column A

- ___ 1. rationing
- ___ 2. market-clearing price
- ___ 3. supply
- ___ 4. demand
- ___ 5. shortage
- ___ 6. surplus
- ___ 7. competition
- ___ 8. incentive to produce
- ___ 9. change in demand
- ___ 10. information

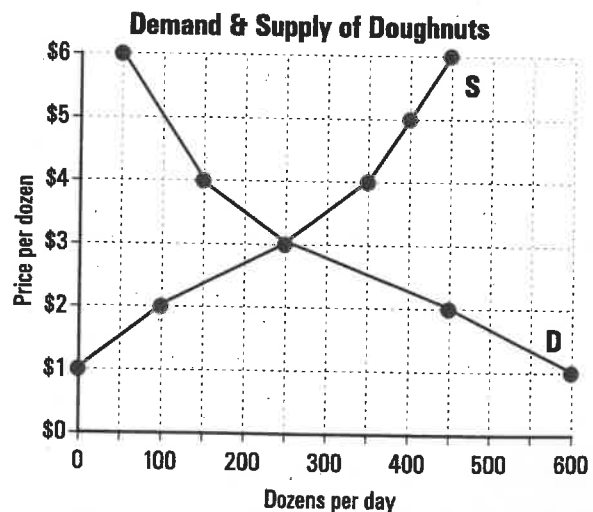
Column B

- a. Producing more than people need.
- b. Market prices provide this for producers and consumers.
- c. Buyers want to buy more than before at every price.
- d. Allocating something scarce among people who want more than is available.
- e. The amounts sellers want to sell at different possible prices.
- f. How much more of a product sellers want to sell than buyers want to buy at a given price.
- g. Reasons for producing goods and services.
- h. The price that balances the amount buyers want to buy with the amount sellers want to sell.
- i. The amounts buyers want to buy at different possible prices.
- j. Rivalry among buyers or among sellers.
- k. How much more of a product buyers want to buy than sellers want to sell at a given price.

Multiple Choice: In the space provided write the letter of the item that best completes the statement:

- ___ 1. A higher price for a product
 - a. encourages sellers to sell less of it.
 - b. causes shortages.
 - c. shifts both the demand and supply curves.
 - d. causes buyers to buy less of it.
- ___ 2. A market-clearing price is important because
 - a. it clears away scarcity.
 - b. it balances the amounts demanded and supplied.
 - c. it is the only price at which sellers offer any amount of a product.
 - d. it causes buyers to disappear from the market.

Questions 3-5 are based on the following graph, which shows the daily demand and supply of doughnuts in a given area.



5. MARKET-CLEARING PRICE

Name _____

Date _____

- ___ 3. The market-clearing price of doughnuts is
a. \$5
b. \$2
c. \$1
d. None of the above.
- ___ 4. If the price of doughnuts is \$1 per dozen, then
a. the demand for doughnuts will change.
b. sellers will sell a lot of doughnuts.
c. competition among buyers will force the price up.
d. doughnuts will be not be scarce.
- ___ 5. At a price of \$4 per dozen, there is
a. a surplus of doughnuts equal to 200 dozen per day.
b. a surplus of doughnuts equal to 100 dozen per day.
c. a shortage of doughnuts equal to 200 dozen per day.
d. None of the above.
- ___ 6. What best describes the forces that make a price move up or down to its market-clearing level?
a. Competition among buyers.
b. Competition among sellers.
c. Competition between buyers and sellers.
d. Both a and b.
- ___ 7. Which of the following best illustrates the rationing function of market-clearing prices?
a. The price that advertisers pay for television time has risen over the years as companies have increasingly sought to advertise their products in that medium.
b. Ticket prices to professional sporting events have gone up as more fans have wanted to attend.
c. Both of the above.
d. None of the above.
- ___ 8. In the early 1990s a company in France introduced a new type of snow skis called "cap skis." The top layer of the ski is a single laminate that wraps over the sides of the skis to give them a rounded look. As the popularity of the skis rose, so did their price. Soon, more companies put similar skis on the market. Which of the following best describes the basic economic role that market prices played in this development?
a. Creating a surplus of skis.
b. Providing an incentive to produce skis.
c. Rationing skis among producers.
d. Changing the demand for skis.
- ___ 9. If the demand for a product increases faster than its supply, what would probably happen to the product's market-clearing price?
a. It would fall.
b. It would rise.
c. It would remain unchanged.
d. There is not enough information to answer the question.
- ___ 10. Market-clearing prices do which of the following in free enterprise?
a. Act as messengers that tell producers about consumers' wants.
b. Act as messengers that tell consumers about producers' costs of providing products.
c. Encourage consumers to conserve and businesses to be efficient.
d. All of the above.

The definition and importance of the supply and demand model

By ThoughtCo.com, adapted by Newsela staff on 07.03.19

Word Count **705**

Level **1190L**



Image 1. Huawei smartphones on display at a store in Shanghai, China, May 27, 2019. Understanding supply and demand can help us make sense of markets for such items as smartphones. Photo by: Hector Retamal/AFP/Getty Images

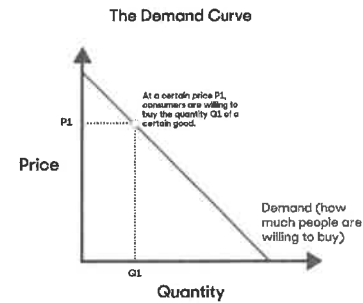
The supply and demand model forms the basis for introductory concepts of economics. This model refers to the combination of buyers' preferences comprising the demand and sellers' preferences comprising the supply. Together they determine the market prices and product quantities in any given market. In a capitalistic society, prices are not determined by a central authority but instead are the result of buyers and sellers interacting in these markets. Unlike a physical market, however, buyers and sellers don't have to all be in the same place, they just have to be looking to conduct the same economic transaction.

It's important to keep in mind that prices and quantities are what comes out of the supply and demand model, not what goes in. That is to say, supply and demand determine the prices and determine the quantities of a product that are available. It's also important to keep in mind that the supply and demand model only applies to competitive markets where there are many buyers and sellers all looking to buy and sell similar products. Markets that don't satisfy these criteria have different models that apply to them instead.

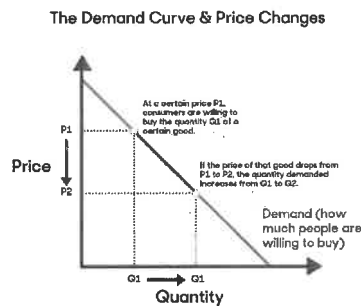
The Law Of Supply And The Law Of Demand

The supply and demand model can be broken into two parts: the law of demand and the law of supply. In the law of demand, the higher a supplier's price, the lower the quantity of demand becomes for that product.

The law itself states, "all else being equal, as the price of a product increases, quantity demanded falls; likewise, as the price of a product decreases, quantity demanded increases." This corresponds largely to the opportunity cost of buying more expensive items. If you're spending more money for X, then you have less money and opportunity to spend money on Y.



The

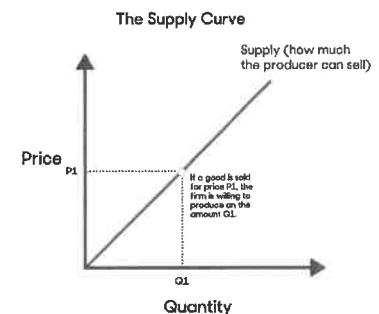
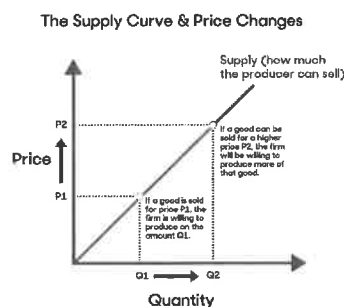


expectation is that if the buyer must give up consumption of something they value more in order to buy the more expensive product, they will likely want to buy it less.

Similarly, the law of supply corresponds to the quantities that will be sold at certain price points.

Essentially the law of supply is the converse of the law of demand in that the higher the price of an item, the higher the quantity of that item. Suppliers will make more of the product available at higher prices.

The



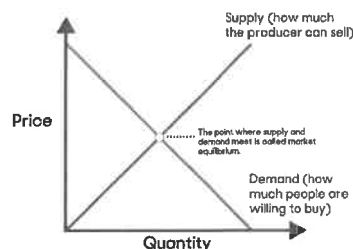
relationship between supply and demand relies heavily on maintaining a balance between the two. This balance is the point at which there is never more or less supply than demand in a marketplace. The point at which supply and demand intersect is known as market equilibrium.

Application In Modern Economics

To think of supply and demand in concrete terms, take the example of a new XYZ smartphone being sold for \$500. The smartphone makers are offering it at this price because their market analysis has shown that consumers will not spend more than this for this product. The company

releases 1,000 XYZ smartphones at this price. It can't offer more of the product, since the opportunity cost of production is too high for the demand. However, if the demand rises, the price will also increase. The smartphone company can afford to offer more of them, resulting in higher quantity supply. On the other hand, if 1,000 smartphones are released and the demand is only for 500 of them, the price will fall to attempt to sell the remaining 500 copies that the market no longer demands.

Supply and Demand: Market Equilibrium



The concepts that are essential in the supply and demand model further provide a backbone for modern economics discussions. This is especially true as we consider capitalist societies. Without a fundamental understanding of this model, it is almost impossible to understand the complex world of economic theory.

Jodi Beggs is an economist and instructor at Harvard University and runs a website called "Economists Do It With Models."



This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Quiz

1

Read the following paragraph.

The concepts that are essential in the supply and demand model further provide a backbone for modern economics discussions. This is especially true as we consider capitalist societies. Without a fundamental understanding of this model, it is almost impossible to understand the complex world of economic theory.

Which phrase from the article helps to explain what "fundamental" means?

- (A) concepts that are essential
- (B) modern economics discussions
- (C) consider capitalist societies
- (D) almost impossible to understand

2

What is the meaning of the phrase "all else being equal" as used in the following sentence?

The law itself states, "all else being equal, as the price of a product increases, quantity demanded falls; likewise, as the price of a product decreases, quantity demanded increases."

- (A) if the conditions are changeable
- (B) if prices and quantities stay steady
- (C) if supply and demand are the same
- (D) if everything happens as expected

3

Image 6 shows a point at the intersection of the supply curve and demand curve.

Based on the article, what is the explanation for this detail?

- (A) It is the only point where supply and demand laws will always be true.
- (B) It is the only point where supply and demand laws are no longer applicable.
- (C) It is the point where the amount supplied is equal to the amount demanded.
- (D) It is the point where the amount supplied outweighs what is demanded.

4

Which of the following topics is emphasized in the article, but NOT in the images?

- (A) The higher the price, the lower the quantity of demand will be.
- (B) The higher the price, the more the supplier will make available.
- (C) The supply and demand model only works in competitive markets.
- (D) The supply and demand curves are the converse of each other.