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MoneyInstructor-nomics
Lesson 7: Supply and Demand

Introduction:

The laws of supply and demand explain how the market determines the price and quantity of goods to be sold. *Supply* refers to the quantity of a certain good or service that is available for people to purchase. *Demand* refers to the number of people who are willing and able buy that good or service at a certain price.

This lesson will focus on the ways that an increase in supply can effect demand and on the ways that an increase in demand can effect future supply. Students will also discover how fluctuations in supply and demand affect pricing.

The study of supply and demand will aid students in pricing their goods and services when they enter the entrepreneur phase of MoneyInstructor-nomics. It will also help them to understand the economic processes going on around them in their day-to-day lives.

Objectives:

1. Students will define *supply* and *demand*.
2. Students will describe the effects of demand exceeding supply.
3. Students will describe the effects of supply exceeding demand.
4. Students will give examples of supply exceeding demand.
5. Students will give examples of demand exceeding supply.

Activity:

Materials:

***Approximately 150 MoneyInstructor-Bucks – divided as shown**

***1 undesirable treat: half-used eraser, a chewed-up pencil stub, a bag of pencil shavings from the pencil sharpener, chewed up bubble gum, or no-credit extra homework)**

***Enough desirable treats for the entire class: cupcakes, decorated cookies, homework passes, new pencils, or any inexpensive thing that most of your class would be interested in having.**

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1. Give each student a grant of between 4 and 10 MoneyInstructor-Bucks (MIB). Just as in real life, some people will have fewer resources than others. Although the grants will be randomly distributed, the breakdown should look something like this:

4 MIB - 3 grants
5 MIB – 4 grants
6 MIB – 5 grants
7 MIB – 5 grants
8 MIB – 4 grants
9 MIB - 2 grants
10 MIB – 1 grant

*Divide up the MIB before the lesson so that it can be distributed quickly.

2. Tell students that you will auction off **two** different items today. In each of the two auctions, the item will go to the highest bidder. Tell the students your behavioral expectations for the auction process. Tell students that if they do not win anything today, they will be able to keep their MoneyInstructor-bucks grant.

3. **Auction A: Low Demand**
Begin by offering the item undesirable item, an item that you predict students will not want to spend their MoneyInstructor-bucks on. (Examples: a half-used eraser, a chewed-up pencil stub, a bag of pencil shavings from the pencil sharpener, chewed up bubble gum, or no-credit extra homework.)

Unenthusiastically begin the bidding at $1 and award the item to the highest bidder for the bid price. In the event of a tie, have "winners" pick a number between 1 and 10.

4. **Auction B: High Demand – Low Supply**
Introduce ONE of the desirable items for the second auction. (Examples: cupcakes, decorated cookies, homework passes, new pencils). Tell the students that since you only have **one** of these items for them to bid on. Again, give your behavioral expectations for the auction and then start the bidding at one MIB. Generate excitement by describing how wonderful this treat is. Give the treat to the highest bidder for the bid price.

5. **Auction C: High Supply**
Suddenly "discover" that you have 25 more of the wonderful treats. Tell the students that you will auction off the rest of the treats, one at a time, to the highest bidders. Start the bidding at 1 MIB. Continue auctioning the treats off until every student who wants one has had an opportunity to win one.

6. Discuss:
   a. Why did Auction B bring a much higher price than Auction C?
   b. What would probably have happened if **all** of the special treats had been offered during Auction B?
   b. Why did the item in Auction A go for a low price?

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7. Based on Auctions A, B, and C, ask students to define *supply* and *demand*.

8. Tell students that when demand for a product or services exceeds the quantity supplied at that price, the result generally leads to an increase in price. For example, in Auction B, many people wanted the treat, but since we thought there was only one available, many people were willing to pay a high price for it.

On the other hand, prices tend to fall when the supply of a product or service exceeds the demand. For example, once we discovered that many treats were available, people were not will to pay so much.

Demand exceeds supply:
If there is a small supply and a large demand, the price goes up.
As the price increases, producers offer more.

Supply exceeds demand:
If there is a large supply and a small demand, the price drops.
If the price decreases, producers offer less.
As the price increases, producers produce more.

Appropriate balances between supply and demand generally lead to price stabilization.

9. Lead students in a discussion of experience they may have had when:

a. Demand exceeded supply: Beanie Babies, gasoline, pumpkins on Halloween, power bracelets

b. Supply exceeded supply: Going Out of Business sales, BIG Lots, store sales

10. Have students complete the lesson 7 activity sheet.

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Lesson 7 Activity Sheet

Supply and Demand Activity Sheet

1. Write a paragraph describing what happened in the auctions today. Use these words in your paragraph: *supply* *demand* *price* *increase* *decrease*

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2. Give an example of a situation in which supply exceeds demand.

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3. Give an example of a situation in which demand exceeds supply.

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