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LESSON FOUR

LESSON FOUR THE MARKET NEVER STANDS STILL

INTRODUCTION

Prices of goods and services fluctuate as conditions that influence the behavior of buyers and sellers change. This lesson examines the major reasons for such changes in supply and demand, and the resulting effects of these changes on market prices.

CONCEPTS

Determinants of demand shifts
Determinants of supply shifts

CONTENT STANDARD

Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

BENCHMARKS

Demand for a product changes when there is a change in consumers' incomes or preferences, or in the prices of related goods or services, or in the number of consumers in a market.

Supply of a product changes when there are changes in the prices of the productive resources used to make the good or service, the technology used to make the good or service, the profit opportunities available to producers by selling other goods and services, or the number of sellers in the market.

Changes in supply and demand cause relative prices to change; in turn, buyers and sellers adjust their purchase and sales decisions.

OBJECTIVE

◆ Students explain how demand and supply shift in response to changes in factors affecting consumers and producers, respectively. Then

they predict the effects of changes in demand and supply on market prices and quantities traded.

LESSON DESCRIPTION

Students complete several worksheets to study the factors (determinants) that affect the position of supply and demand curves in order to understand why market prices and output levels fluctuate. After learning these determinants, students predict the effects of changes in the determinants on market prices and quantities.

TIME REQUIRED

Two class periods. Day one – procedures 1-9. Day two – procedures 10-15 and Assessment.

MATERIALS

- Activity 1: Reasons for Changes in Demand, one per student
- Activity 2: Reasons for Changes in Supply, one per student
- Activity 3: Reasons for Shifts in Demand Curves, one per student
- Activity 4: Reasons for Shifts in Supply Curves, one per student
- Activity 5: Changes in Supply and Demand Change Market Price and Quantity, one per student
- Activity 6: Market Game Test, one per student
- Visual 1: Determinants of Demand
- Visual 2: Shifts in Demand and Supply
- Visual 3: Determinants of Supply

PROCEDURES

1. Explain to the class that markets never stand still. Prices in a market economy change often, reflecting shifts in supply and demand. The purpose of this lesson is to examine more specifically how people's choices regarding buying and selling result in shifts in demand and supply.

2. Display Visual 1. Use the **determinants of demand** (consumer income, consumer tastes and preferences, prices of substitute goods, prices of complementary goods, consumers'

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expectations about the future price of the product, and the number of consumers in the market) to explain a shift in demand.

3. Distribute Activity 1 to the class. Read the directions for Part I, and have students complete the tasks described. Have students explain their responses to see if there is a consensus, or confusion. Read the directions for Part II and direct students to complete it. Carefully discuss and correct students' responses by referring to the following answers.

Part I:

A. *No change in demand, only in quantity demanded*

B. *Increase*

C. *Decrease*

D. *Decrease*

E. *Decrease*

F. *Increase*

G. *Decrease*

H. *Increase*

Part II:

Not listed, no change in demand – A

Change in consumer tastes – D, F

Change in income – E

Change in the number of consumers – B

Change in price of substitute good – C

Change in price of complementary good – G

Change in consumers' price expectations – H

4. Display Visual 2. Explain that using diagrams that show changes in demand and their effects on prices can reduce the confusion of the sort likely encountered in Activity 1. Use the top half of Visual 2 to explain that an increase in demand for a product means a larger quantity is demanded at every price. This is represented by the shift from curve D_1 to curve D_2 . Conversely, a shift from D_2 to D_1 represents a smaller quantity demanded at every price, or a decrease in demand.

5. Emphasize that an increase in the demand for doughnuts means that more doughnuts are demanded at every price.

Provide students with practice in interpreting the graph. Ask:

A. What quantity of doughnuts is demanded at point A? (20) At point B? (40)

B. What quantity is demanded at point C? (40) At point D? (60)

C. What quantity is demanded at point E? (50) At Point F? (70)

D. What conclusion can be drawn from these data? (*On demand curve D_2 , 20 more doughnuts are demanded at every price than on demand curve D_1 .*)

6. Ask students to predict how one should draw a curve that illustrates a decrease in demand from D_1 , and explain why. Draw such a curve, and label it D_0 . (*Curve D_0 should be to the left of D_1 .*)

7. Ask students whether a movement from point A to point C on curve D_1 shows an increase in the demand for doughnuts? (*No. It shows an increase in the quantity demanded, caused by a decrease in price from \$2.00 to \$1.00. It does not show that more doughnuts were demanded at all prices – e.g., at \$2.00 the quantity demanded does not change.*) Stress that a movement along a demand curve is called a change in the quantity demanded; a shift in the position of the entire curve is called a change in demand.

8. Display Visual 3. Use the **determinants of supply** (the cost of productive resources, technology, change in producers' profit opportunities producing other products, changes in producers' expectations about the future price of the product, and the number of sellers in the market) to explain a shift in supply.

9. Distribute copies of Activity 2. Read the directions for Part I, and have students complete the tasks described. Have students explain their responses to see if there is a consensus, or confusion. Read the directions for Part II, and

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direct students to complete it. Carefully discuss and correct students' responses by referring to the following answers.

Part I:

- A. Increase
- B. Increase
- C. Decrease
- D. Increase
- E. Decrease
- F. No change in supply, only in quantity supplied.
- G. Decrease

Part II:

Not listed, no change in supply – F
Costs of factors of production – A, C
Technology – B
Number of sellers – D, E
Profit opportunities from producing other products – G

10. Distribute Activity 3 to the class. Read the instructions and have students complete the activity sheet, using Part II of Activity 1 as a reference. Discuss the following answers.

- A. No change, 3
- B. Increase, 4
- C. Decrease, 3
- D. Decrease, 2
- E. Decrease, 1
- F. Increase, 2
- G. Decrease, 1
- H. Increase, 2

11. Display Visual 2 again. Using the bottom half, point out to students that a movement from curve S_1 to curve S_2 is an increase in supply, because the quantity supplied increases for every price. A shift from curve S_2 to S_1 indicates a decrease in quantity supplied at every price, so this is a decrease in supply.

12. Emphasize that an increase in the supply of doughnuts means that more doughnuts are supplied at every price. Ask:

- A. What quantity of doughnuts is supplied at point A? (60) At point B? (70)
- B. What quantity is supplied at point C? (40) At point D? (50)
- C. What quantity is supplied at point E? (30) At point F? (40)
- D. What conclusions can be drawn from these data? (*On supply schedule S_2 , 10 more doughnuts are supplied at every price compared with schedule S_1 .*)

13. Ask students to predict how one should draw a curve that illustrates a decrease in supply from S_1 . Draw such a curve, and label it S_0 . (*Curve S_0 should be to the left of S_1 .*)

14. Ask students whether a movement from point D to point B shows an increase in the supply of doughnuts. (*No. It only shows an increase in the quantity supplied, caused by the increase in price from \$1.00 to \$2.00. At the price of \$1.00, more doughnuts are not supplied.*) Stress that a movement along a supply curve is only a change in the quantity supplied; a shift of the entire curve is called a change in supply. This verbal distinction is crucial to understanding one another in discussing economic topics, because the two phrases clearly refer to very different things.

15. Distribute Activity 4 to the class. Read the instructions and have students complete the activity sheet, using Part II of Activity 2 as a reference. Discuss the answers to Activity 4.

- A. Increase, 4
- B. Increase, 5
- C. Decrease, 4
- D. Increase, 5
- E. Decrease, 4
- F. No change, 4
- G. Decrease, 3

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CLOSURE

Conclude the lesson by reviewing some of the key points. Ask:

1. What are the determinants of demand? (*Consumer income, consumer tastes, the prices of substitute goods, the prices of complementary goods, consumers' expectations about the future price of the good, and the number of consumers in the market*)

2. What are the determinants of supply? (*The cost of productive resources, technology, producers' profit opportunities producing other products, producers' expectations about the future price of the good, and the number of sellers in the market*)

3. What is the difference between a change in quantity demanded and a shift in demand? (*A movement along a demand curve is called a change in quantity demanded; a shift in the position of the entire curve is called a change in demand.*)

4. What is the difference between a change in quantity supplied and a shift in supply? (*A movement along a supply curve is called a change in quantity supplied; a shift in the position of the entire curve is called a change in supply.*)

5. Distribute a copy of Activity 5 to each student. After students have completed Activity 5, discuss their answers in class to reinforce understanding.

A. E_1 , equilibrium price = 1.50, equilibrium quantity = 40 million gallons

B. Quantity demanded equals quantity supplied, and that is only true at this price

C. E_2 , equilibrium price = 1.75, equilibrium quantity = 55 million gallons

D. E_3 , equilibrium price = 2.00, equilibrium quantity = 40 million gallons

Questions C and D Demand Schedule

<u>If the price of gasoline is:</u>	<u>Consumers would be willing to buy:</u>
\$1.25	85 M gallons
1.50	70 M
1.75	55 M
2.00	40 M
2.25	35 M
2.50	31 M

Question D Supply Schedule

<u>If the Price of Gasoline is:</u>	<u>Producers would be willing to sell:</u>
\$1.25	-5 M gallons (i.e., will sell none)
1.50	10 M
1.75	25 M
2.00	40 M
2.25	55 M
2.50	60 M

ASSESSMENT

1. Encourage students to visit a business selling a product in which they are interested. Ask the owner or manager to identify the last time prices for the product changed. Also ask him or her to list as many reasons as possible why the price changed. In class, review the determinants of changes in demand and supply. Help students put the reasons for the price change that were suggested by the owner/manager into categories that list the appropriate determinants of supply or demand. Put students into cooperative learning groups, and draw graphs that reflect the reasons for changes in price identified during their interviews – i.e., show the shifts in supply and/or demand.

2. Conduct one or more rounds of the Classroom Market in Crude Oil (see Lesson 3) to simulate a decrease in supply. Use the number of sell cards available at each price shown in the following table. Give each student a score sheet (Activity 3 from Lesson 3). If you have used that activity very recently, simply remind students of

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the activity and tell them you are going to play the game again, but with something changed. In the original version, or in the first rounds played now if you did not use the Classroom Market for Crude Oil in earlier classes, equilibrium price is \$34 – with both quantity supplied and quantity demanded 16 (million) barrels. In the classroom market, prices should converge toward this level as more and more trades take place and students discover the equilibrium price. Continue by replacing the original deck of seller cards with a new deck as shown in the following table. (You will now have one seller card from Visual 1 in Lesson 3 with a price of \$28, one seller card with a price of \$30, etc.) **Don't** tell students at this time that the supply deck has changed, or that the demand deck has not changed. Shuffle both decks, and distribute a new card to buyers and sellers, as explained in Lesson 3. Have students start a new record of trades on their score sheet, clearly separated from information from any earlier rounds. Warn students again that things have changed, and that prices from the earlier rounds may no longer hold. Play the simulation again for about 10 minutes, as explained in Lesson 3. Have students record their transaction prices and gains or losses on their score sheets, and report their scores during the trading so that you can prepare the class tally sheet (Visual 2 in Lesson 3). When trading is completed and students have calculated their individual gains and losses, display the class tally sheet and ask students to discuss how and why prices changed as they did. (*Prices should increase because of the decrease in supply.*) To show the decrease in supply, draw the old and new supply curves on Activity 5 of Lesson 3, either shown on an overhead transparency or on individual copies of the activity distributed to students. Take the numbers for the original supply curve from the top chart in Activity 4 of Lesson 3, and the numbers for the new supply curve from the chart below. Putting this schedule together with the demand curve – which did not change – from the bottom chart on Activity 4 in Lesson 3, shows that the new equilibrium price is \$38.

Change in Supply (Assessment Item 2)

Price	Number of sellers willing to sell 1 barrel of crude oil at the price indicated or at a higher price	Total quantity supplied at this price
\$28	1 seller	1
30	1 seller	2
32	1 seller	3
34	2 sellers	5
36	2 sellers	7
38	2 sellers	9
40	4 sellers	13
42	5 sellers	18
44	7 sellers	25
46	7 sellers	32

3. Conduct one more round of the Classroom Market for Crude Oil to simulate an increase in demand. Once again, collect the old buyer and seller decks from the students, and warn them that something else is going to change. Do **not** tell them that this time the supply curve will remain unchanged (at the lower level established by using the new supply deck in the previous procedure), but demand will increase (perhaps because of an increase in income, a change in tastes and preferences, or other reasons explored in this lesson). Replace the original deck of buyer cards with the new deck shown in the following table. (Make two buyer cards from Visual 1 in Lesson 3 with a price of \$50, three buyer cards with a price of \$48, etc.) Shuffle both decks and distribute a new card to buyers and sellers. Have students start a new record of trades on their score sheet, clearly separated from information from any earlier rounds. Warn students again that things have changed, and that prices from the earlier round(s) may no longer hold. Play the simulation again for about 10 minutes. Have students record their transaction prices and gains or losses on their score sheets. Also have them report their trades during the activity, so that you can prepare the class tally sheet (Visual 2 in Lesson 3). When trading is

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completed, display the class tally sheet and ask students to discuss how and why prices changed as they did. (*Prices should increase again, to even higher levels, this time because of the increase in demand.*) To show the increase in demand, draw the old and new supply and demand curves on Activity 5 of Lesson 3, either shown on an overhead transparency or on individual copies of the activity distributed to students. Take the numbers for the original demand curve from the bottom chart in Activity 4 of Lesson 3, and the numbers for the new demand curve from the chart below. Putting this schedule together with the new supply curve developed in the previous procedure – which did not change here – shows that the new equilibrium price is \$42.

Change in Demand (Assessment Item 3)

Price	Number of buyers willing to buy 1 barrel of crude oil at the price indicated or at a lower price	Total quantity demanded
\$50	2 buyers	2
48	3 buyers	5
46	4 buyers	9
44	4 buyers	13
42	5 buyers	18
40	6 buyers	24
38	8 buyers	32

4. Distribute a copy of Activity 6 to each student, to assess students' understanding of the key ideas in this lesson.

- A. *The schedule showing how much of a product producers are willing and able to sell at all possible prices.*
- B. *The schedule showing how much of a product consumers are willing and able to buy at all possible prices.*

C. *Law of supply: Producers are willing to sell more of a product at higher prices and less at lower prices.*

Law of demand: Consumers are willing to buy more of a product at lower prices and less at higher prices.

- D. 1. *Greater*
2. *Less*
3. *Decrease*
4. *Remain unchanged*

Activity 1

Reasons for Changes in Demand

Part I

Read the following eight newspaper headlines. In each case decide if the event will cause a change in the current market demand for beef. If so, decide if it is an increase or a decrease, and write the correct answer. For example, if you think headline 1 means there will be a decrease in demand, write "decrease" in the first blank. For headline 2, if you think demand will increase, write "increase." If the event causes no change in demand, write "no change."

- A. PRICE OF BEEF RISES
Demand _____
- B. MILLIONS OF IMMIGRANTS SWELL U.S. POPULATION
Demand _____
- C. PORK PRICES DROP
Demand _____
- D. SURGEON GENERAL WARNS THAT EATING BEEF CAN BE HAZARDOUS TO HEALTH
Demand _____
- E. TAKE-HOME PAY FOR AMERICANS DROPS 3RD MONTH IN ROW
Demand _____
- F. NATIONWIDE FAD: THE JAPAPEÑO BURGER
Demand _____
- G. HIGHER PRICE FOR CHARCOAL THREATENS MEMORIAL DAY COOKOUTS
Demand _____
- H. BEEF PRICES EXPECTED TO SKYROCKET NEXT MONTH
Demand _____

Activity 1 (continued)

Part II

Put each change in demand from Part I into one of the following categories, based on the reason for the change. Write the letter of the headline(s) next to the appropriate reason for the change in demand. Some categories may have more than one headline letter, and any event that did not change demand should *not* be listed with any of the determinants.

- _____ A change in consumer tastes
- _____ A change in consumer incomes
- _____ A change in the number of consumers in the market
- _____ A change in the price of a substitute good
- _____ A change in the price of a complementary good
- _____ A change in consumers' price expectations

Activity 2

Reasons for Changes in Supply

Part I

Read the following seven newspaper headlines. In each case, decide if the event will cause any change in the current market supply of new cars sold in the United States. If so, decide if it is an increase or a decrease, and write the correct answer. For example, if you think headline 1 means there will be a decrease in supply, write "decrease" in the first blank. For headline 2, if you think supply will increase, write "increase." If the event causes no change, write "no change."

- A. AUTO WORKERS AGREE TO WAGE AND FRINGE CUTS
Supply _____
- B. NEW TECHNOLOGY INCREASES EFFICIENCY IN DETROIT FACTORIES
Supply _____
- C. STEEL PRICES RISE 10%
Supply _____
- D. QUOTAS ELIMINATED: FOREIGN CAR IMPORTS RISE
Supply _____
- E. LARGE AUTO PRODUCER GOES BANKRUPT, CLOSES FACTORIES
Supply _____
- F. BUYERS REJECT NEW CAR MODELS: SELLERS LOWER PRICES
Supply _____
- G. SHORTAGES ABOUND IN CONSUMER ELECTRONICS – CONSUMERS CAN'T BUY ENOUGH NEW GADGETS
Supply _____

Activity 2 (continued)

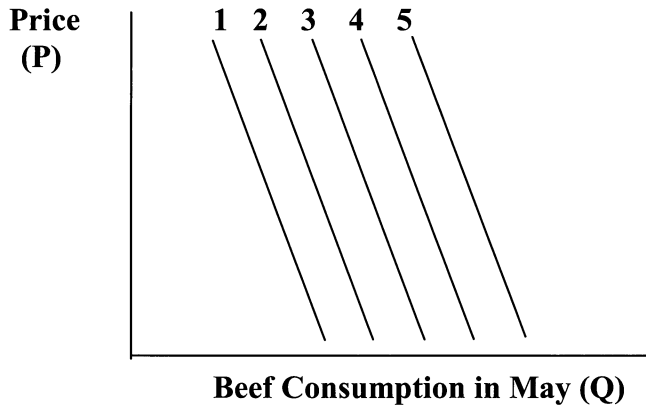
Part II

Put each change in supply from Part I into one of the following categories, based on the reason for the change. Write the letter of the headline next to the appropriate reason for the change in supply. Some categories may have more than one headline letter, and any event that did not change supply should *not* be listed with any of the determinants.

- _____ A change in the cost of factors of production
- _____ A change in technology
- _____ A change in the number of sellers in the market
- _____ A change in profit opportunities from producing other products

Activity 3

Reasons for Shifts in Demand Curves



Read the following eight newspaper headings. In each case decide if the event will cause a change in the current demand for beef. If so, determine whether it is an increase or a decrease, and write the correct answer. Begin at curve 3. If you think headline A means there will be a decrease in demand, write “decrease” in the first blank and “2” in the second blank; move to curve 2 to do headline B. Or, if you think headline A means demand will increase, write “increase” and “4” in the blank for headline A; move to curve 4 to do headline B.

Move only one curve at a time. Do not skip two curves, say from 1 to 3, even if you think the headline means there will be a large change in demand. Do not go beyond the five curves. If you are at 1 and the next headline implies a decrease in demand, you goofed somewhere. There is one headline which implies that the demand for beef does *not* change.

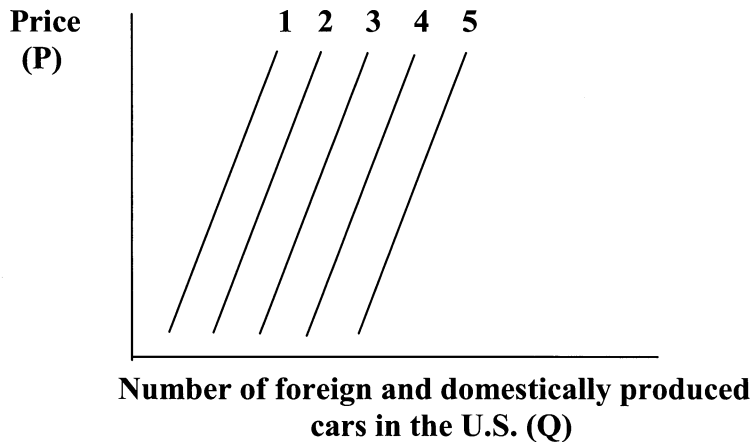
- A. PRICE OF BEEF RISES
Demand _____ Curve _____
- B. MILLIONS OF IMMIGRANTS SWELL U.S. POPULATION
Demand _____ Curve _____
- C. PORK PRICES DROP
Demand _____ Curve _____
- D. SURGEON GENERAL WARNS THAT EATING BEEF CAN BE HAZARDOUS TO HEALTH
Demand _____ Curve _____

Activity 3 (continued)

- E. TAKE-HOME PAY FOR AMERICANS DROPS 3RD MONTH IN ROW
Demand _____ Curve _____
- F. NATIONWIDE FAD: THE JALAPEÑO BURGER
Demand _____ Curve _____
- G. HIGHER PRICE OF CHARCOAL THREATENS MEMORIAL DAY COOKOUTS
Demand _____ Curve _____
- H. BEEF PRICES EXPECTED TO SKYROCKET NEXT MONTH
Demand _____ Curve _____

Activity 4

Reasons for Shifts in Supply Curves



Read the following seven newspaper headlines. In each case, decide if the event will cause any change in the supply of cars. If so, determine whether it is an increase or a decrease, and write the correct answer. Begin at curve 3. If you think headline A means there will be a decrease in supply, write “decrease” in the first blank and “2” in the second blank; move to curve 2 to do headline B. Or, if you think headline A means supply will increase, write “increase” and “4” in the blank for headline A; move to curve 4 to do headline B.

Move only one curve at a time. Do not skip two curves, say from 1 to 3, even if you think the headline means there will be a large change in supply. Do not go beyond the five curves. If you are at 1 and the next headline implies a decrease in supply, you goofed somewhere. There is one headline which implies that the supply of cars does *not* change.

- A. AUTO WORKERS AGREE TO WAGE AND FRINGE CUTS
Supply _____ Curve _____
- B. NEW TECHNOLOGY INCREASES EFFICIENCY IN DETROIT FACTORIES
Supply _____ Curve _____
- C. STEEL PRICES RISE 10%
Supply _____ Curve _____
- D. QUOTAS ELIMINATED: FOREIGN CAR IMPORTS RISE
Supply _____ Curve _____

Activity 4 (continued)

- E. LARGE AUTO PRODUCER GOES BANKRUPT, CLOSES FACTORIES
Supply _____ Curve _____
- F. BUYERS REJECT NEW CAR MODELS: SELLERS LOWER PRICES
Supply _____ Curve _____
- G. SHORTAGES ABOUND IN ELECTRONICS: CONSUMERS CAN'T BUY ENOUGH
NEW GADGETS
Supply _____ Curve _____

Activity 5

Changes in Supply and Demand Change Market Price and Quantity

Economists studied the gasoline market to find out how many millions (M) of gallons consumers would be willing to buy each day and how many gallons sellers would be willing to sell each day at various prices. This research showed that:

<u>If the price of a gallon of gasoline was</u>	<u>Consumers would be willing to buy</u>	<u>Producers would be willing to sell</u>
\$1.25	55 M	25 M
1.50	40 M	40 M
1.75	25 M	55 M
2.00	10 M	70 M
2.25	5 M	85 M
2.50	1 M	90 M

- A. According to the table, the market clearing (or equilibrium) price for gasoline is _____ and at this price the number of gallons of gasoline bought and sold is _____. Label the equilibrium price E_1 .
- B. How do you know this is the market clearing price? _____
- C. Assume that sports utility vehicles gain new popularity by meeting improved safety standards for tires and operating designs. Because consumers buy so many sports utility vehicles, they want to buy 30 million more gallons of gasoline per day at every price. For example, at \$1.25 per gallon people now want to buy 85 million gallons rather than 55 million. Complete a new table below showing the amount that people would like to buy at each price. What is the new market-clearing price? _____ How many gallons will be bought and sold at this price? _____ Label the new equilibrium price E_2 .

<u>If the price of a gallon of gasoline was</u>	<u>Consumers would be willing to buy</u>	<u>Producers would be willing to sell</u>
\$1.25	___ M	25 M
1.50	___ M	40 M
1.75	___ M	55 M
2.00	___ M	70 M
2.25	___ M	85 M
2.50	___ M	90 M

Activity 5 (continued)

- D. Now assume that two oil producing countries get into a war and destroy each other's oil wells. Because of this, sellers are willing to sell 30 million fewer gallons of gasoline per day at every price. For example, at \$1.50 per gallon sellers are willing to sell only 10 million gallons rather than 40 million gallons. Write another table showing the new amount that people would like to sell at each price. What is the new market-clearing (or equilibrium) price, assuming the demand schedule from question C is used again? _____ How many gallons will be bought and sold at this price? _____ Label this new equilibrium price E_3 .

<u>If the price of a gallon of gasoline was</u>	<u>Consumers would be willing to buy</u>	<u>Producers would be willing to sell</u>
\$1.25	85 M	___ M
1.50	70 M	___ M
1.75	55 M	___ M
2.00	40 M	___ M
2.25	35 M	___ M
2.50	31 M	___ M

Activity 6

Market Game Test

- A. What does the term supply mean? _____

- B. What does the term demand mean? _____

- C. Explain the laws of supply and demand, i.e., (1) the relationship between quantity supplied and price and (2) the relationship between quantity demanded and price.

- D. Use the following terms to complete the sentences below. You will not have to use all of the terms.

Increase
Decrease

Remain Unchanged

Less
Greater

1. If everything else remains the same, the amount of wheat available for sale at a price of \$4.90 per bushel will usually be _____ than the amount available for sale at a price of \$3.90 per bushel.
2. However, the amount of wheat demanded would be _____ at \$4.90 than at \$3.90 per bushel.
3. All other things being equal, if the demand for wheat falls, then the market price for wheat will _____.
4. If the supply of wheat for sale doubles and the demand for wheat doubles, the price of wheat will probably _____.

Visual 1

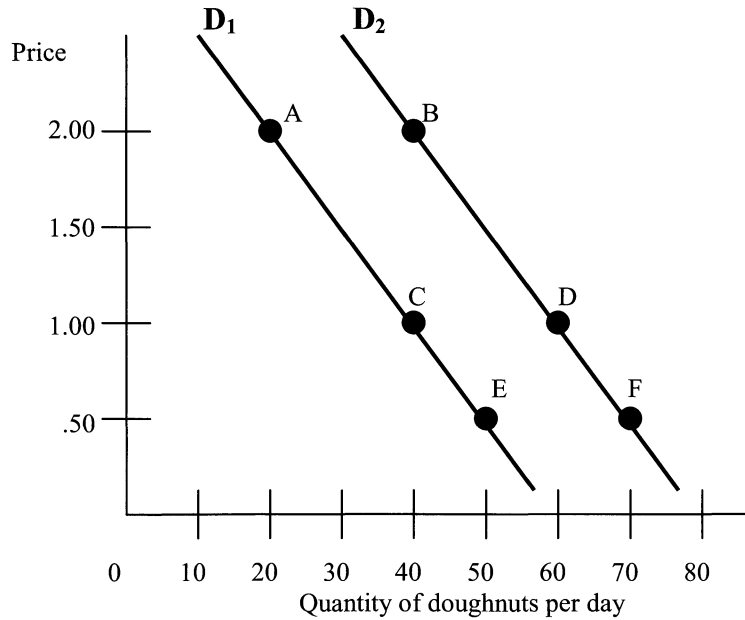
Determinants of Demand

- **Change in Consumer Income:** When there is an increase in income, demand for most goods increases. If there is a decrease in income, demand for most goods decreases. The exceptions to this rule are called inferior goods, because people buy less of them as their income rises.
- **Change in Consumer Tastes:** If consumers like a product more based on advertising or experience in using the good, demand increases. If consumers like a good less over time, demand decreases.
- **Change in the Price of a Substitute Good:** If the price of a substitute good increases, this will increase demand for the original good. If the price of Coca Cola increases, for example, the demand for Pepsi Cola will increase. If the price of a substitute good decreases, this will result in a decrease in demand for the original good. If the price of Coca Cola decreases, the demand for Pepsi Cola will decrease.
- **Change in the Price of a Complementary Good:** If the price of a complementary good increases, this will decrease demand for the original good. If the price of camera film sharply rises, for example, the demand for cameras will decrease. If the price of a complementary good decreases, this will result in an increase in demand for the original good. If the price of CD players decreases, the demand for CD's will increase.
- **Change in Consumers' Price Expectations:** Consumers' expectations about the future price of a good influence demand. If consumers expect the price to increase, they try to buy more now, before the price rises.
- **Change in Number of Consumers in the Market:** If there is an increase in the number of consumers, this will result in an increase in demand. If there is a decrease in the number of consumers, this will result in a decrease in demand.

Visual 2

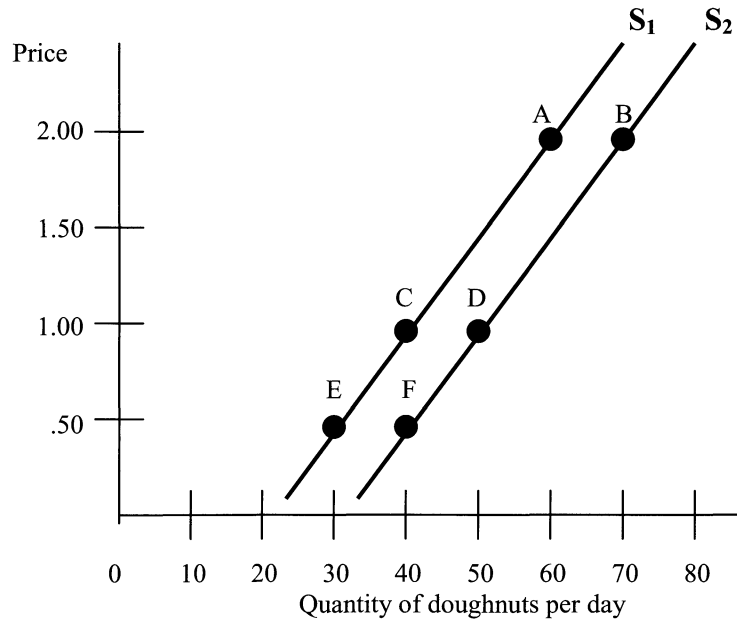
Shifts in Demand and Supply

DEMAND



→ INCREASES →
 ← DECREASES ←

SUPPLY



→ INCREASES →
 ← DECREASES ←

Visual 3

Determinants of Supply

- **Change in the Cost of Factors of Production:** If the prices of natural resources, labor resources, or capital resources used to produce a product increase, supply will decrease. When these costs of production decrease, supply increases.
- **Change in Technology:** New technology often reduces producers' costs, leading to an increase in supply.
- **Change in Profit Opportunities Producing Other Products:** If producers expect to make more selling something else the supply of what they currently produce decreases. If profit opportunities producing other things decrease, more sellers will begin producing this product, increasing supply.
- **Change in Producers' Price Expectations:** Producers' expectations about the future price of the product they sell influence current supply. If sellers expect the price for their good to increase in the future, they may reduce what they offer to sell today, to wait for the higher price. If sellers expect the price to decrease, they may try to sell more of the product now, before the price falls. For example, consider wheat farmers deciding whether to store or sell grain they have just harvested, or people who are thinking about selling their houses.
- **Change in Number of Sellers in the Market:** More sellers in a market will usually increase supply. Fewer sellers will likely decrease supply.



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