Economics (High School)

Name ______________________________ Date __________

SECTION 1 | READING STUDY GUIDE WITH ADDITIONAL SUPPORT

Seeking Equilibrium: Supply and Demand

Before You Learned

Demand is a consumer's willingness to buy a good or service along with the ability to pay for it; supply is a producer's willingness and ability to produce and sell a good or service.

Now You Will Learn

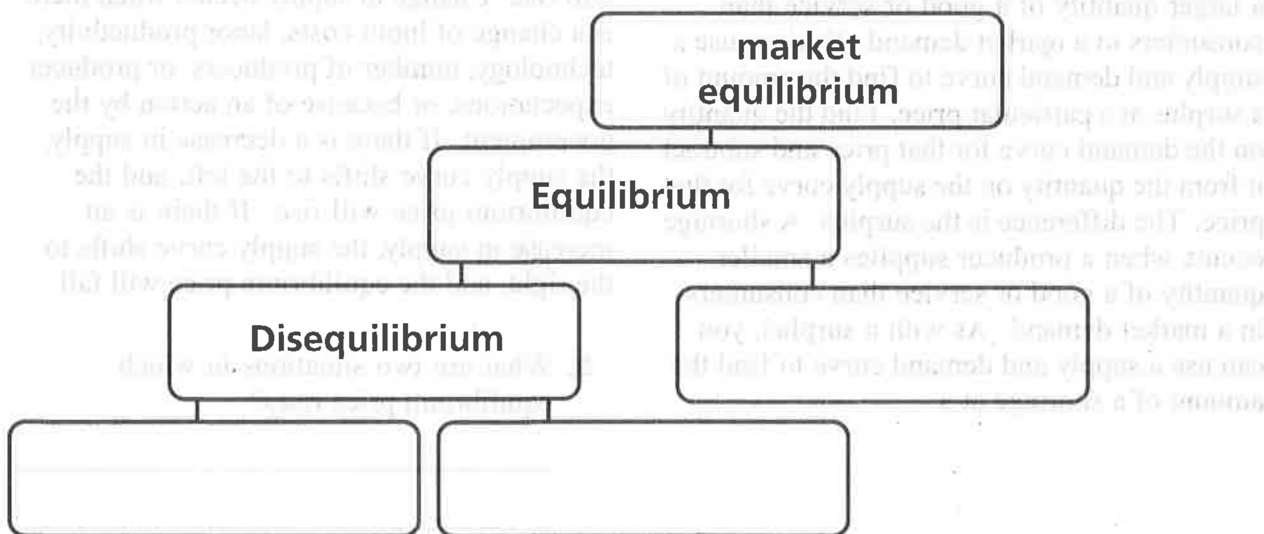
Producers and consumers interact to determine equilibrium price, which can change with changes in supply and changes in demand, sometimes leading to surpluses or shortages.

Economic Terms

- **market equilibrium:** The situation in which the quantity supplied of a good or a service and the quantity demanded at a particular price are equal
- **equilibrium price:** The price at which the quantity demanded and the quantity supplied are equal
- **surplus:** The situation that results when the quantity supplied of a good or service is greater than the quantity demanded
- **shortage:** The situation that results when the quantity demanded of a good or service is greater than the quantity supplied
- **disequilibrium:** The situation that exists when the quantity supplied of a good or service is not in balance with the quantity demanded

As You Read

Take notes to help you understand the interaction between supply, demand, and equilibrium price



The Interaction of Supply and Demand

In any market, if buyers think the price of a product is too high for the value they are getting, they will buy less. If sellers think that the price of a product is too low for them to make a reasonable profit, they will supply less of that product. As buyers and sellers interact in a market, the market moves toward market

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equilibrium—a situation in which the quantity supplied of a good or service is equal to the quantity demanded at that price. This price is called the equilibrium price.

Market equilibrium is illustrated on a demand and supply schedule. It is found where the quantity demanded and the quantity supplied are equal. If you draw supply and demand curves on the same graph, you can also identify market equilibrium. It is the point where the supply and demand curves intersect.

1. How could you use a graph with supply and demand curves to find equilibrium price?

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Reaching the Equilibrium Price

A surplus occurs when a producer supplies a larger quantity of a good or service than consumers in a market demand. You can use a supply and demand curve to find the amount of a surplus at a particular price. Find the quantity on the demand curve for that price and subtract it from the quantity on the supply curve for that price. The difference is the surplus. A shortage occurs when a producer supplies a smaller quantity of a good or service than consumers in a market demand. As with a surplus, you can use a supply and demand curve to find the amount of a shortage at a particular price by reading the quantities from the graph at a particular price and subtracting the smaller quantity from the larger quantity. The difference is the shortage. Producers can addresses surpluses by reducing supply or lowering prices. They can address shortages by increasing supply or raising prices.

2. With a good at the equilibrium price, can there be a shortage or a surplus? Explain.

Equilibrium Price in Real Life

When there is an imbalance between the quantity of a good or service that producers supply and the quantity that consumers demand, a state of disequilibrium exists. Change in demand occurs due to a change in income, consumer tastes or expectations, or market size, or with substitutes or complements. If there is a decrease in demand, the demand curve shifts to the left, and the equilibrium price will fall; if there is increase in demand, the demand curve will shift to the right, and equilibrium price will rise. Change in supply occurs when there is a change of input costs, labor productivity, technology, number of producers, or producer expectations, or because of an action by the government. If there is a decrease in supply, the supply curve shifts to the left, and the equilibrium price will rise. If there is an increase in supply, the supply curve shifts to the right, and the equilibrium price will fall.

3. What are two situations in which equilibrium price rises?

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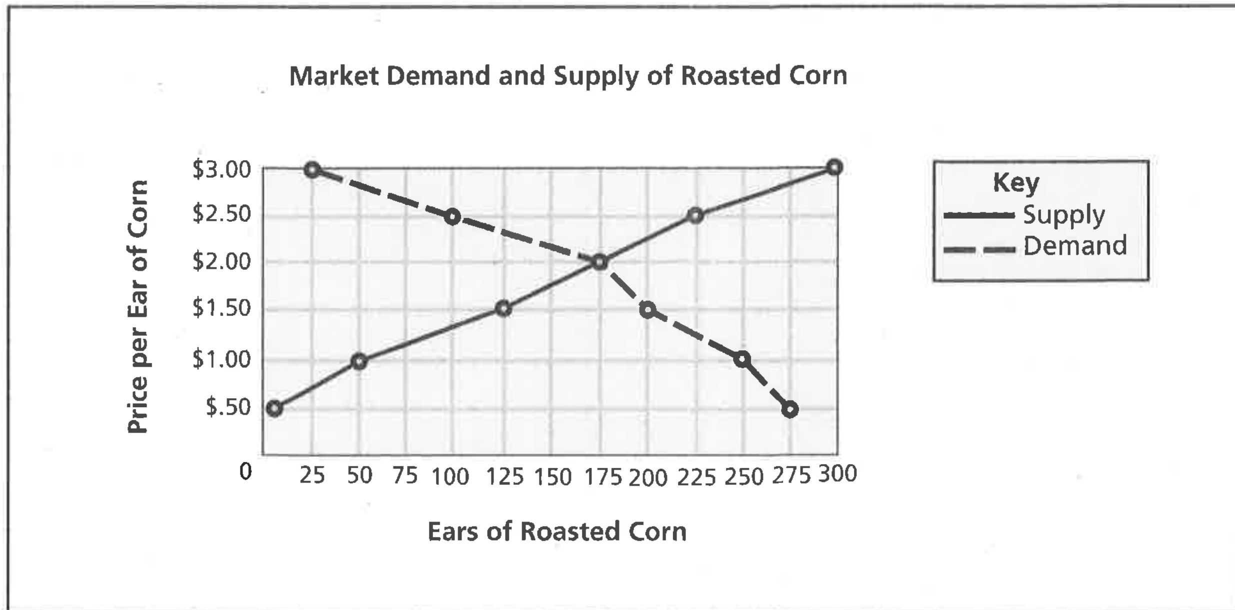

4. Reread your notes on "The Interaction of Supply and Demand" and "Reaching the Equilibrium Price." Underline the definitions of equilibrium price, shortage, and surplus.

5. On the graph, circle the point of market equilibrium. Use a yellow highlighter to shade the area of the graph that shows a surplus. Use a blue highlighter to shade the area of the graph that shows a shortage.

6. Identify the equilibrium price for an ear of roasted corn. Identify the amount of shortage when the price of an ear of corn is $1.50. Identify the amount of surplus when the price of an ear of corn is $2.50.

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SEEKING EQUILIBRIUM: SUPPLY AND DEMAND—CONTINUED

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Market Demand and Supply of Roasted Corn

4. Reread your notes on "The Intersection of Supply and Demand" and "Reaching the Equilibrium Price." Underline the definitions of equilibrium price, shortage, and surplus.

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Name ____ Date ______________

SECTION 2 | READING STUDY GUIDE WITH ADDITIONAL SUPPORT

Prices as Signals and Incentives

Before You Learned

Producers and consumers interact to determine equilibrium price, which can change with changes in supply and changes in demand, sometimes leading to surpluses or shortages.

Now You Will Learn

Prices act as signals and incentives to producers and consumers, and the price system is neutral, market driven, flexible, and efficient in a market economy.

Economic Terms

- **competitive pricing:** The situation in which a producer sells products at lower prices to lure customers away from rival producers, while still profiting
- **incentive:** A reward or other type of motivation that encourages people to act in a particular way

As You Read

Take notes to help you understand the how the price system works and how prices act as signals and incentives to both producers and consumers.

	Producers	Consumers
Competitive pricing		
Incentive		

How the Price System Works

Sometimes producers want to lure customers away from their competitors. They may use competitive pricing to do this. With competitive pricing, a producer lowers the price for one or more items or services below the price competitors charge. The price allows the producer to still make a profit while potentially bringing in more business. Competitive pricing helps show that the price system is

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Neutral The free interactions of producers and consumers determine prices.

Market driven Government policy does not determine prices; neither does any other authority impose prices. The system runs independently of other social institutions.

Flexible The system responds to changing conditions with changes in price.

Efficient The price system helps ensure that maximum numbers of goods and services will be sold. This helps producers use resources efficiently in the economic sense of the word.

1. If one producer uses competitive pricing for a particular product to lure customers, what are the other producers in the market likely to do? List two possibilities.

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Prices Motivate Producers and Consumers

Prices act as signals and incentives to producers and consumers in these ways: (1) If a shortage occurs, producers view this as a signal that prices are too low. The ability to charge higher prices acts as an incentive to draw producers into a market in which there is a shortage. (2) For consumers, higher prices act as a signal to switch to a substitute. Or they may hold off purchasing a product in hopes that a surplus will develop. (3) If a surplus occurs, producers view this as a signal that prices are too high. This may give them the incentive to reduce prices or production. Falling prices are an incentive for producers to leave a market. (4) Consumers, on the other hand, see a surplus as a signal to buy. Producers may draw their attention to low prices through advertising or other means.

2. How did successful music stores view the drop in CD prices between 1999 and 2001? How did they respond to the signal?

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Michael Dell: Using Price to Beat the Competition

In the mid-1980s, Michael Dell started a company to assemble PCs and sell them directly to consumers. In just a few years, Dell's business became very successful. This was because the company kept costs and prices low. He made computers according to each customer's orders, assembling them only after the order had been placed. He also became a pioneer in Internet sales. This also helped keep sales costs down.

3. What did Dell focus on to beat out other companies in producing and selling PCs?

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4. Reread your notes on "How the Price System Works" and "Price Motivates Producers and Consumers." Underline who determines prices and how they do this. Circle the definition of incentive.
5. Label the people in the cartoon as either producers or consumers.
6. Summarize what is happening in the cartoon.

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7. Explain the economic reasoning behind the caption.

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SECTION 3

READING STUDY GUIDE WITH ADDITIONAL SUPPORT

Intervention in the Price System

Before You Learned

Prices act as signals and incentives to both producers and consumers, and the price system provides equality, independence, flexibility, and efficiency in a market economy.

Now You Will Learn

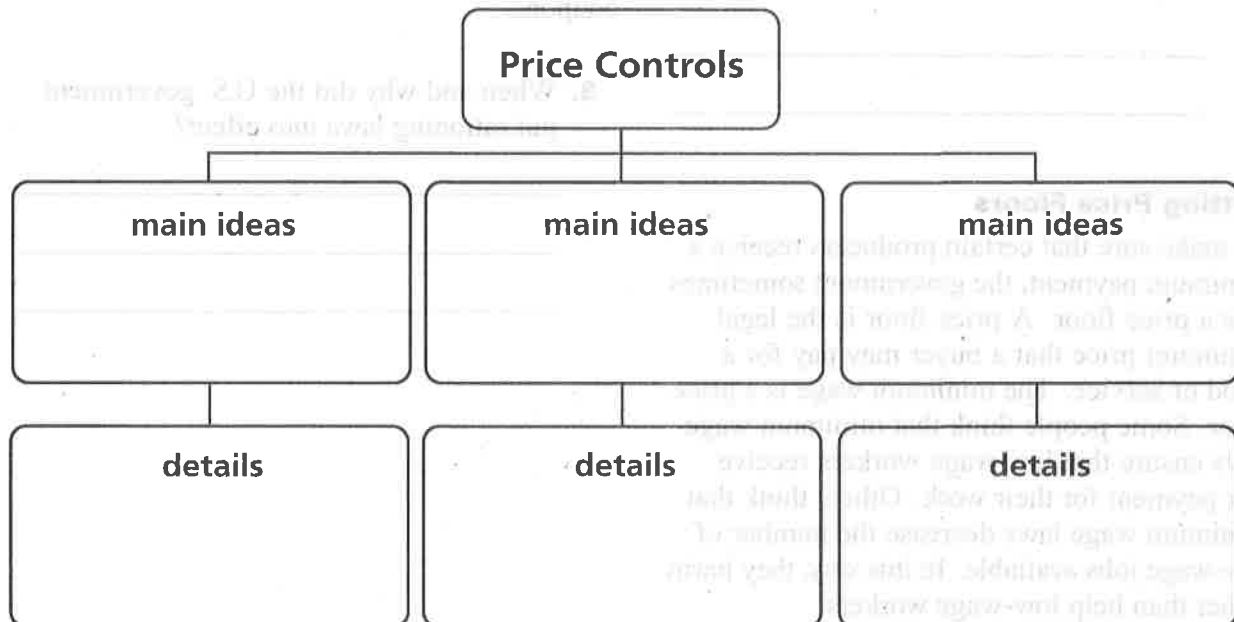
Government and nonprofit institutions impose price ceilings to keep the cost of items below the equilibrium price or price floors to keep the cost of items above the equilibrium price. In emergencies, the government may institute rationing.

Economic Terms

- **price ceiling:** The legal maximum price that sellers may charge for a product
- **price floor:** The legal minimum price that buyers may pay for a product
- **minimum wage:** The legal minimum amount that an employer must pay for one hour of work
- **rationing:** A government system for allocating goods and services that relies on factors other than price
- **black market:** The illegal buying and selling in violation of price controls or rationing

As You Read

Take notes to help you understand price ceilings, price floors, and rationing and the economic effects they have.



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Imposing Price Ceilings

To keep the prices of goods or services affordable for many people, governments or non-profit institutions sometimes set price ceilings. A price ceiling is the maximum price a producer may charge for a good or service. Price ceilings usually create shortages.

Rent control illustrates some of the benefits and problems of price ceilings. Rent control allows people with lower incomes to remain in a community with high rents. However, with rent control, landlords have little incentive to put up more buildings for rent. This causes a housing shortage. The shortage often worsens because tenants are reluctant to move from rent-control housing. Landlords also have no incentive to invest money in maintaining their rental properties

1. When a rent-control apartment comes up for rent and the landlord is allowed to raise the rent to the equilibrium price, there is usually a large jump in the rental fee. Why?

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Setting Price Floors

To make sure that certain producers receive a minimum payment, the government sometimes sets a price floor. A price floor is the legal minimum price that a buyer may pay for a good or service. The minimum wage is a price floor. Some people think that minimum wage laws ensure that low-wage workers receive fair payment for their work. Others think that minimum wage laws decrease the number of low-wage jobs available. In this way, they harm rather than help low-wage workers.

2. The federal government sets a price floor for many crops. What incentive does this give farmers?

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Rationing Scarce Resources and Products

Rationing is a system in which the government allocates goods and services. Rationing usually occurs during times of national emergency. There is usually a shortage of the goods and services that the government decides to ration.

One system of rationing relies on coupons. Each household gets a number of coupons for rationed items. A black market often develops during times of rationing. A black market involves illegal buying or selling in violation of the rationing laws. It may involve bartering for rationed items. It may involve trading smuggled items for rationed items. It may involve using counterfeited or stolen ration coupons.

3. When and why did the U.S. government put rationing laws into effect?

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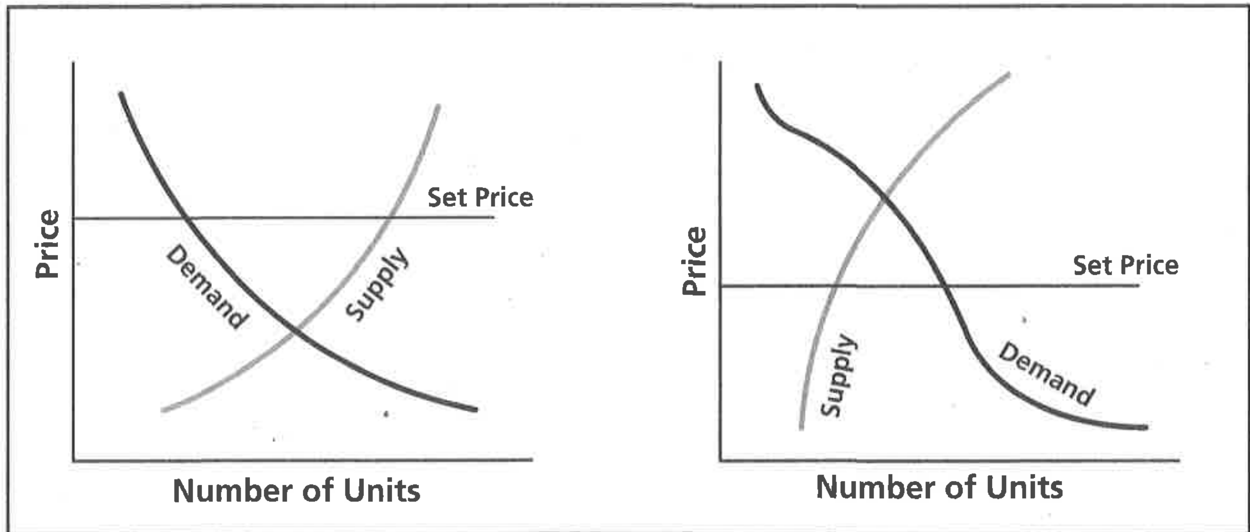

4. Circle the point of market equilibrium on each graph. Note whether the set price is above or below market equilibrium.

5. One of the graphs shows the economic results for housing in a city with rent control. The other graph shows the economic results for low-wage jobs in a place with minimum wage laws. Determine which graph is which, and write appropriate titles for both graphs.

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6. Explain how you identified each of the graphs.

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INTERVENTION IN THE PRICE SYSTEM, CONTINUED

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