

# UNIT II

**SUPPLY AND DEMAND**  
**CHAPTERS 4 - 6**



# PAGE 11 – CRASH COURSE #4: SUPPLY AND DEMAND

**Directions:** As you watch the video, take any notes you deem relevant. You will receive some discussion questions to answer with your group after we watch the video. You may want to focus your notes on the following concepts.

## Key Terms:

Markets

Voluntary Exchange

Efficiency

Incentive

Law of Supply

Law of Demand

Equilibrium



# PAGE 11 – CRASH COURSE #4: SUPPLY AND DEMAND

**Directions:** Discuss and answer the following questions with your group. Be sure to answer in complete sentences so you can study later.

1. What is a **MARKET**? Give three examples.

*A place where buyers and sellers engage in an exchange:*

*Ex. Amazon, Walmart, flea MARKET*

2. How does **VOLUNTARY EXCHANGE** work within the marketplace? Give one real-world example.

*With voluntary exchange, each party values what he/she receives more than what he or she gives up.*

*Ex. I just bought an iPhone 7. I value the phone MORE than the \$649 it cost me to purchase the phone.*

3. What factors makes it difficult for large businesses to take advantage of customers in a free market?

1. Choice or economic freedom
2. Voluntary exchange
3. **INFORMED CONSUMERS**

# PAGE 11 – CRASH COURSE #4: SUPPLY AND DEMAND

**Directions:** Discuss and answer the following questions with your group. Be sure to answer in complete sentences so you can study later.

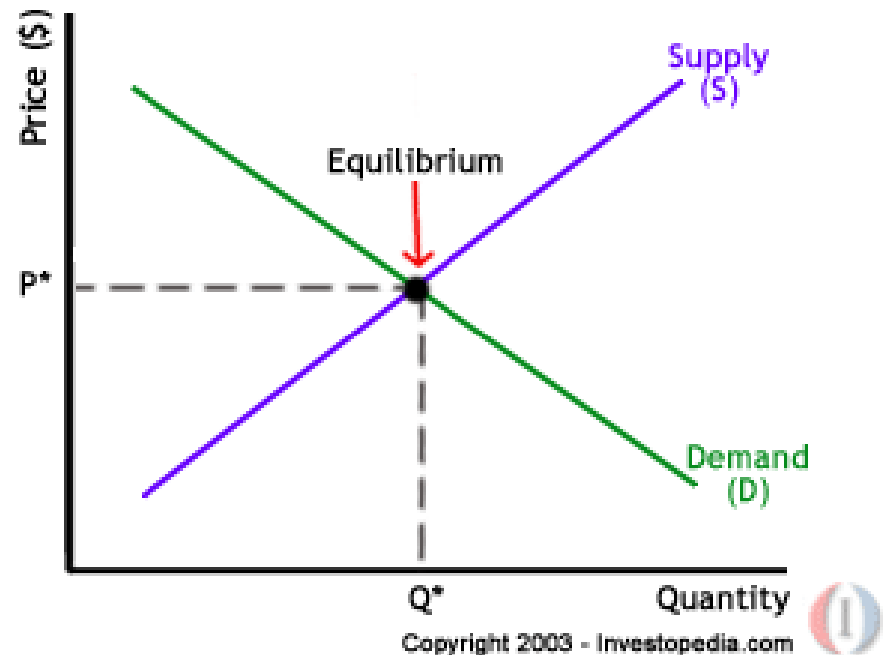
4. Define the concepts:

a) Law of Supply

As price increases, quantity supplied increases, as producers have more incentive to produce (positive correlation)

b) Law of Demand

As price increases, quantity demanded decreases. As price decreases, quantity demanded increases (inverse relationship or negative correlation).



# PAGE 11 – CRASH COURSE #4: SUPPLY AND DEMAND

**Directions:** Discuss and answer the following questions with your group. Be sure to answer in complete sentences so you can study later.

**You are responsible for these during the next notebook check.**

5. Explain why the price of gas declined in 2014. Illustrate with a graph.
6. Why does the market approach not always work? Provide two real-world examples.

# PAGE 12 – CHANGE IN DEMAND

Use pages  
109-113 in the  
text.

**CHANGE IN DEMAND** is...

**Factor 1**

**Factor 2**

**Factor 3**

**Factor 4**

**Factor 5**

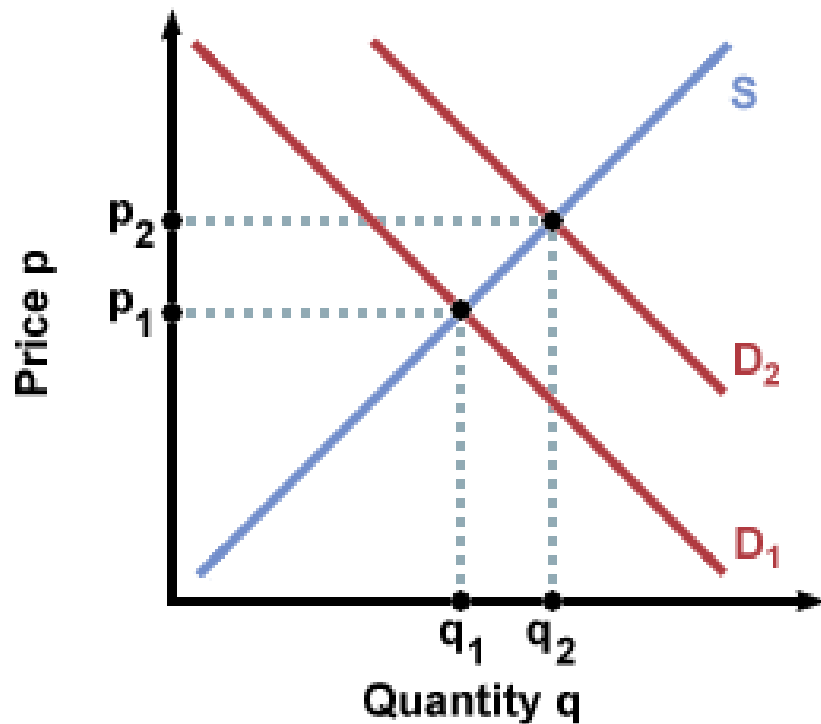
**Factor 6**

## **DIRECTIONS:**

1. SUMMARIZE EACH FACTOR.
2. DRAW A SYMBOL OR GRAPHIC REPRESENTATION OF EACH FACTOR.
3. LIST THREE EXAMPLES OF EACH.



# PAGE 12 – CHANGE IN DEMAND



Check Your Understanding:

1. *Did demand increase or decrease?*
2. *What happened to the supply?*
3. *What happened to equilibrium price?*



# PAGE 12 – CHANGE IN DEMAND

## FACTOR 1: Income

- A person's ability to buy goods changes as his or her income changes

### Normal goods:

Positive correlation between income and demand

### Inferior goods:

Negative correlation between income and demand

**THIS HAS NOTHING TO DO WITH QUALITY!!!**



VS.



VS.





# PAGE 12 – CHANGE IN DEMAND

## FACTOR 2: Market Size

- As number of consumers in an area changes, so does market size



*Which type of correlation exists between population size and demand?*



# PAGE 12 – CHANGE IN DEMAND



## FACTOR 3: Consumer Tastes

- Consumer tastes change; products gain and lose popularity - - TREND



*How does marketing influence demand?*



# PAGE 12 – CHANGE IN DEMAND



## FACTOR 4: Consumer Expectations

- Expectations about future price of items affect individual behavior



*Should I buy now or wait???*

*Can you think of any other examples?*



# PAGE 12 – CHANGE IN DEMAND

## FACTOR 5: Substitutes

- **Substitutes are products used in place of each other**

↑ Price = ↑ Demand for substitute products

↓ Price = ↓ Demand for substitute products

*Can you think of any examples?*



# PAGE 12 – CHANGE IN DEMAND

## FACTOR 6: Complements

- Complements are goods that are used together.



↑ Demand = ↑ Demand for complimentary good

↓ Demand = ↓ Demand for complimentary good

*Can you think of any examples?*



# PAGE 13 – CHANGE IN SUPPLY

Use pages  
148-150 in the  
text.

## CHANGE IN SUPPLY is...

Factor 1

Factor 2

Factor 3

Factor 4

Factor 5

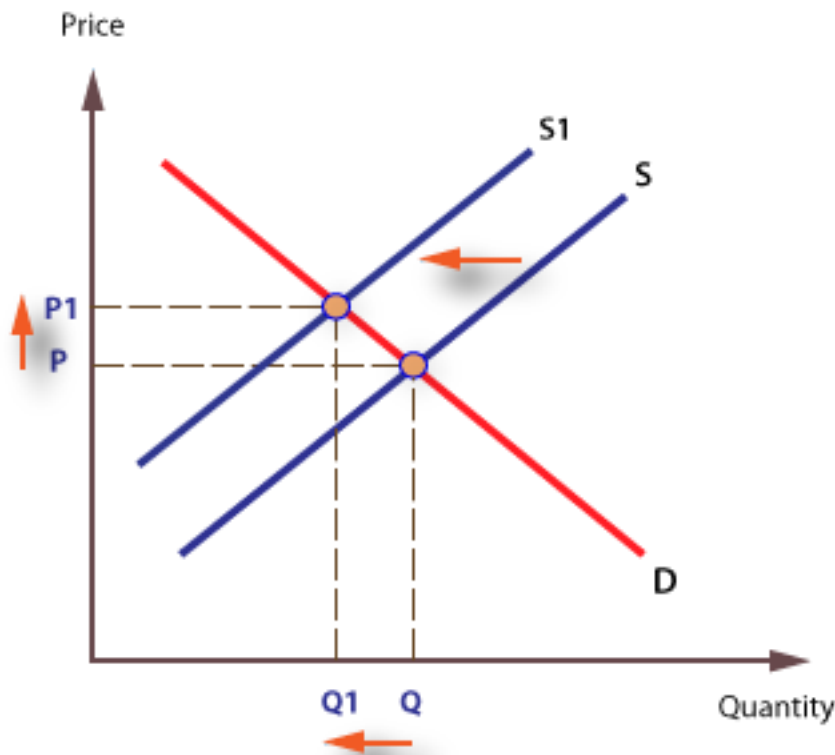
Factor 6

### DIRECTIONS:

1. SUMMARIZE EACH FACTOR.
2. DRAW A SYMBOL OR GRAPHIC REPRESENTATION OF EACH FACTOR.
3. LIST TWO EXAMPLES OF EACH.



# PAGE 13 – CHANGE IN SUPPLY



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Check Your Understanding:

1. *Did supply increase or decrease?*
2. *What happened to demand?*
3. *What happened to equilibrium price?*



# PAGE 13 – CHANGE IN SUPPLY

## Factor 1: Input Costs

- These are the prices of resources needed to produce a good or service.



An iPhone 6 with 16 GB costs about \$200 in parts and labor to build.

The iPhone 7 with 32 GB costs \$224.80 to build (IHS 2016).

If they sold 1,000,000 units of each model, how much more \$\$ did they earn with the iPhone 6?

*Can you think of a business and an example input cost?*





# PAGE 13 – CHANGE IN SUPPLY



## Factor 2: Labor Productivity

- Refers to the amount of product a worker can produce in a set period of time.

↑ Productivity = ↓ Production Cost  
resulting in ↑ Supply



*Can you identify two factors that might increase productivity?*

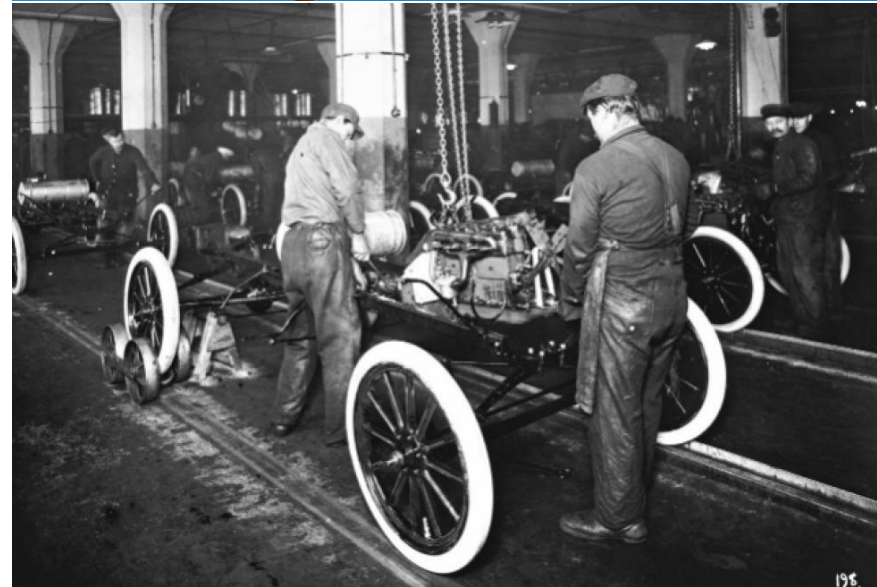


# PAGE 13 – CHANGE IN SUPPLY

## Factor 3: Technology

- Using the scientific method, or discoveries in production to make goods more efficiently.

*What are some improvements in technology that have made work easier for you?*

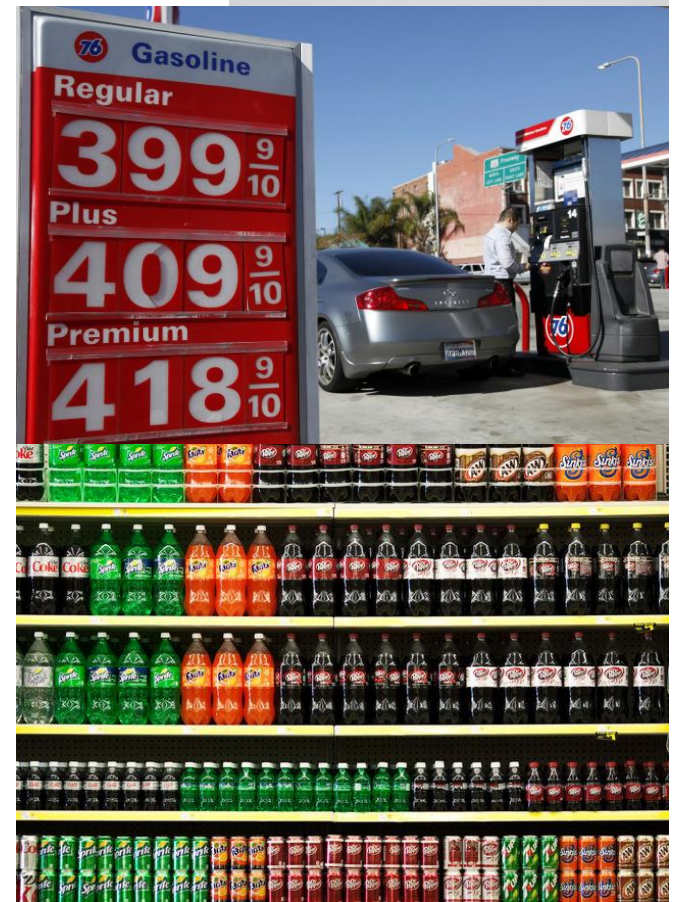


# PAGE 13 – CHANGE IN SUPPLY



## Factor 4: Government Action

- **Excise Tax - tax on production or sale of specific good or service.**
  - Sometimes placed on items that government wants to discourage use of
- **Regulation - set of laws designed to control business behavior**
  - *i.e. banning use of certain resources, worker safety laws, etc.*



*What happens to supply if cost increases?*



# PAGE 13 – CHANGE IN SUPPLY



## Factor 5: Producer Expectations

- Producers have expectations about future price of their product - - *How much will I supply?*
- **Expectations of higher price in future may lead to different actions.**



*Can you think of some scenarios where business owners might want to control supply?*



# PAGE 13 – CHANGE IN SUPPLY

## Factor 6: Number of Producers

- When one producer has successful new idea, others enter the market.
- **Increase in number of producers leads to increased competition.**
  - Less-efficient producers driven out of market



# EDMODO ASSIGNMENT #4

## Slide as Digital Viewing Soars

by Christopher Palmeri

January 6, 2015 – 11:46 AM EST



What is happening to the way we watch TV?



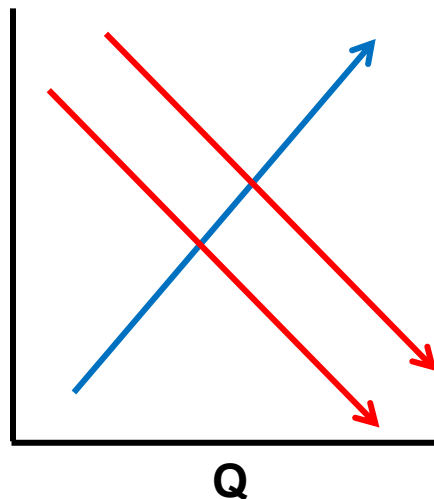
U.S. spending on movies and TV shows for home viewing fell 1.8 percent to \$17.8 billion last year, as soaring outlays on digital products failed to counter the continued decline of DVDs.

The drop accelerated in the fourth quarter, when sales of DVDs fell 16 percent to \$2.34 billion and rentals shrank 8.5 percent to \$833 million, according to the Digital Entertainment Group, a Los Angeles-based consortium founded by the studios. Digital spending, including rentals, purchases and streaming services, grew 16 percent to \$2.12 billion.

Home entertainment is a major source of revenue for Hollywood, with sales 70 percent larger than the box office in the U.S. The business has been buffeted by change as online viewing and purchases have grown and spending on DVDs withered. Total home entertainment spending shrank 4.1 percent in the fourth quarter to \$5.3 billion, a reflection of those trends.

“Consumers embraced the convenience and accessibility of purchasing and collecting digital content, while studios reaped higher margins from these digital sales,” according to the statement

DVD Sales



# EDMODO

## ASSIGNMENT #4

Ex. DVD sales are sliding because more consumers are watching content digitally. (This involves two markets.) Article: <http://www.bloomberg.com/news/articles/2015-01-06/u-s-dvd-sales-continue-to-slide-as-digital-viewing-soars>

Market	What changed?	Demand	Supply	Curve Shift	Equilibrium price and quantity
DVDs	Number of buyers decreased	Decreased	No change	Demand to the left	Equilibrium price and quantity fall
Digital Content	Number of buyers increased	Increased	No change	Demand to the right	Equilibrium price and quantity rise



### DVDs:

- People stopped buying DVDs. Demand curve shifts to the left.
- Assuming supply has remained constant (blue line on graph), we can see a drop in equilibrium price and quantity.



# PAGE 14 – PRESIDENTIAL DEBATE

**Directions:** As you watch the first presidential debate, take notes related to WHAT the candidate intends to do in office. Focus upon the goals of his/her plan, and how he/she attends to accomplish it. Divide your page as it is below. There is no minimum or maximum, but try to fill your page.

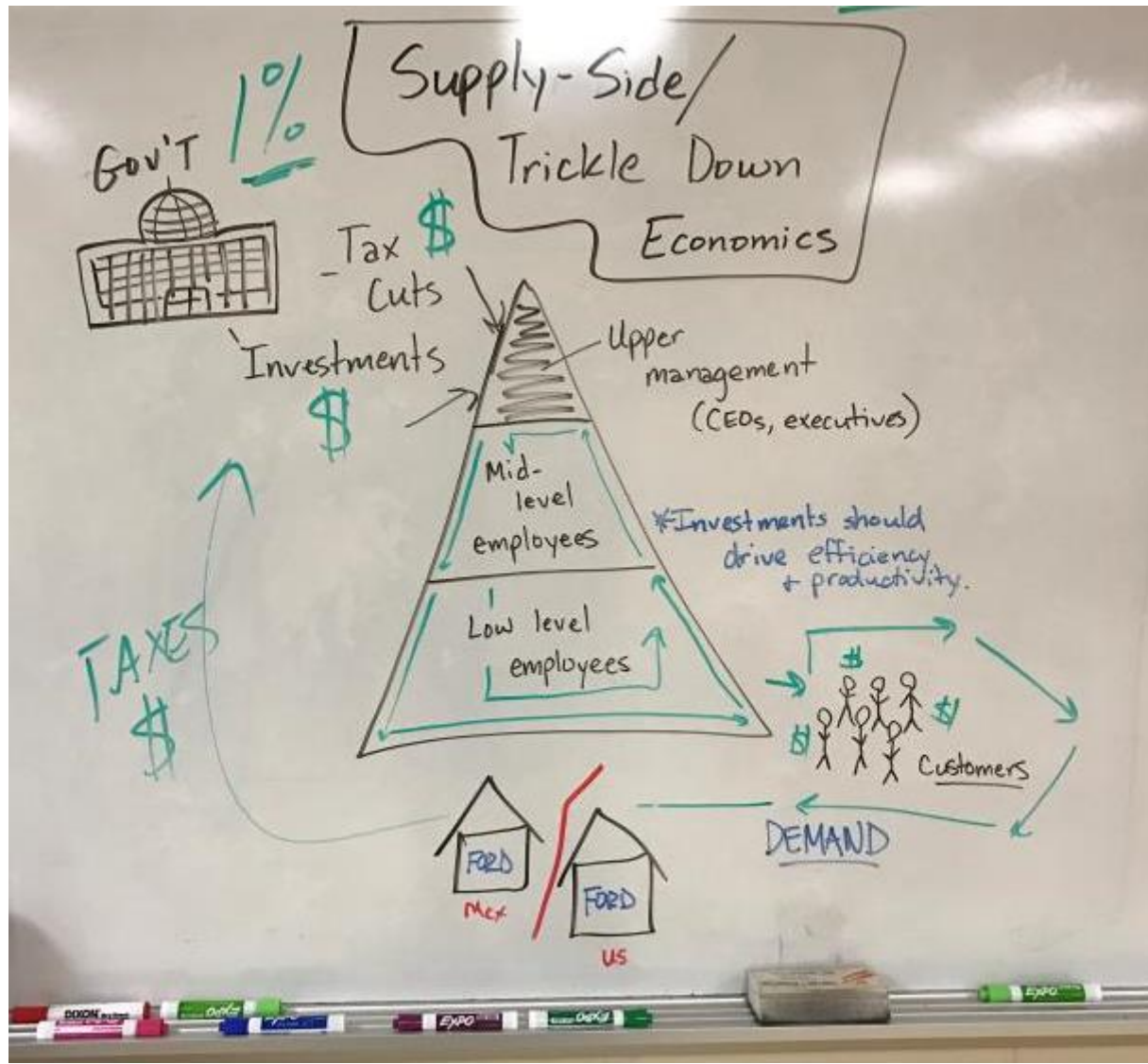
CLINTON

TRUMP

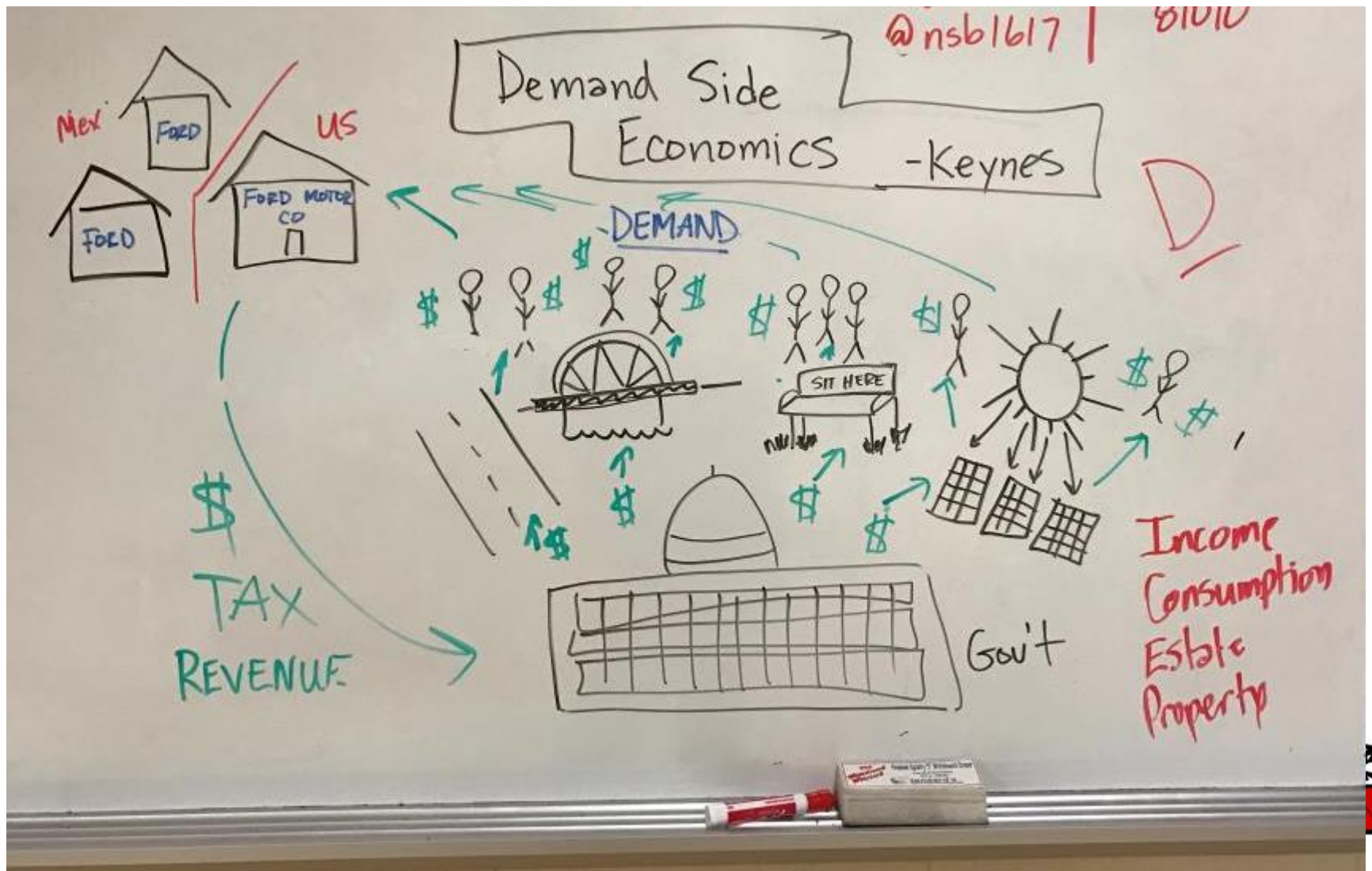




# PAGE 15 – SUPPLY VS. DEMAND SIDE ECONOMICS



# PAGE 15 – SUPPLY VS. DEMAND SIDE ECONOMICS



# PAGE 16 – DIMINISHING MARGINAL RETURNS

## Employees:

1. Create a table like the one below.
2. After each round record the number of rings made. Take note of the system used by the workers (*if any*).
3. The bottom half of your page will be for a graph and some reflection questions.

# of Workers (W)	Total Product (TP)	Marginal Product (change in TP)	Average Product (TP/W)



# PAGE 16 – DIMINISHING MARGINAL RETURNS

**To Do:**  
Take 7 minutes to finish  
the questions from  
yesterday.

## Classwork:

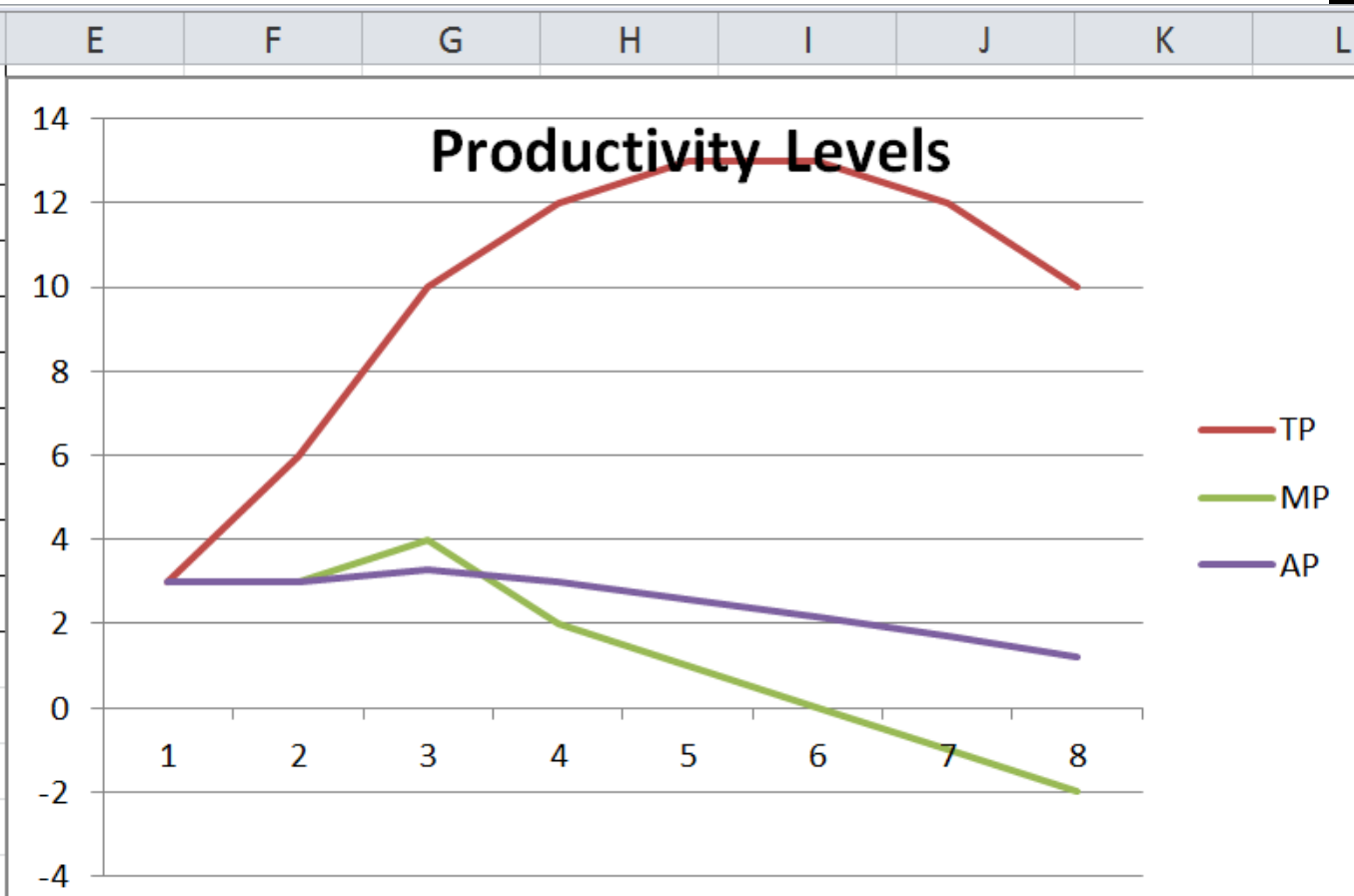
1. **Make a Graph:** Plot your data points on a line graph. There should be three sets of points. Provide a key (*use colors, dotted lines, etc.*).
  - a) Line 1: X-axis: # of Workers/Y-axis: Total Product
  - b) Line 2: X-axis: # of Workers/Y-axis: Marginal Product
  - c) Line 3: X-axis: # of Workers/Y-axis: Average Product
2. **Reflection Questions:**
  - a) At what point did production drop? Why?
  - b) Based on your observations, which system worked most efficiently? Why?
  - c) Explain the concept of diminishing returns in your own words. Did this apply to our factory? Why or why not?



# PAGE 16 – DIMINISHING MARGINAL RETURNS

**Directions:** Use this table to help answer the questions on the previous page.

Workers	TP	MP	AP
1	3		3
2	6	3	3
3	10	4	3.3
4	12	2	3
5	13	1	2.6
6	13	0	2.16
7	12	-1	1.71
8	10	-2	1.2



# PAGE 17 – MARGINAL ANALYSIS AND ELASTICITY (CC #18)

## Direction:

1. Define the following in your own words:
  - a. marginal analysis
  - b. diminishing marginal utility
2. How do you use *marginal analysis* on a daily basis? Provide three examples.
3. Explain the Diamond Water Paradox in 3-4 sentences. Be sure to use the phrase *diminishing marginal utility* in your response.
4. What does *demand elasticity* measure?



# PAGE 18 – FACTORS THAT EFFECT ELASTICITY

## Directions:

Read pages 116-120 to research the three factors that affect demand elasticity. Take as many notes as you see fit. Provide two examples of each factor.

**Essential Question:** *What is elasticity? How does it impact the marketplace?*



# PAGE 18 – FACTORS THAT EFFECT ELASTICITY

**Essential Question:** *What is elasticity? How does it impact the marketplace?*

## **What is elasticity?**

**A measure of how sensitive consumers are to price changes.**

- **Elastic** - quantity demanded changes greatly as price changes
- **Inelastic** - quantity demanded changes little as price changes





# PAGE 18 – FACTORS THAT EFFECT ELASTICITY



## FACTOR 1: Substitute Goods or Services

- No substitute for a product = inelastic
- Available substitutes = elastic

*Can you think of examples of each?*



# PAGE 18 – FACTORS THAT EFFECT ELASTICITY

## FACTOR 2: Proportion of Income

- Demand for expensive items is generally elastic
- Demand for inexpensive items tends to be inelastic



# PAGE 18 – FACTORS THAT EFFECT ELASTICITY



## FACTOR 3: Necessity or Luxury

- **Necessity** - something needed for life = usually inelastic
- **Luxury** - something desired but not essential = usually elastic



# PAGE 19 – SUPER BOWL TICKET PRICES

## Directions:

Read the article found on Edmodo and answer the following questions in complete sentences.



1. XLVIII equals which number? Who played in this game?
2. How much were club level seats expected to be in New York?
3. Why do teams generally *lower* ticket prices?
4. Provide three examples of complementary goods associated with attending a football game.
5. What is a *secondary market*?
6. Explain in your own words the “local market dynamics” and “evidence from the secondary market” that explain the sharp ticket price increase expected at the Super Bowl.
7. Is demand for Super Bowl tickets elastic, or inelastic. Explain.



# PAGE 20 – CH. 4-5

## ASSESSMENTS

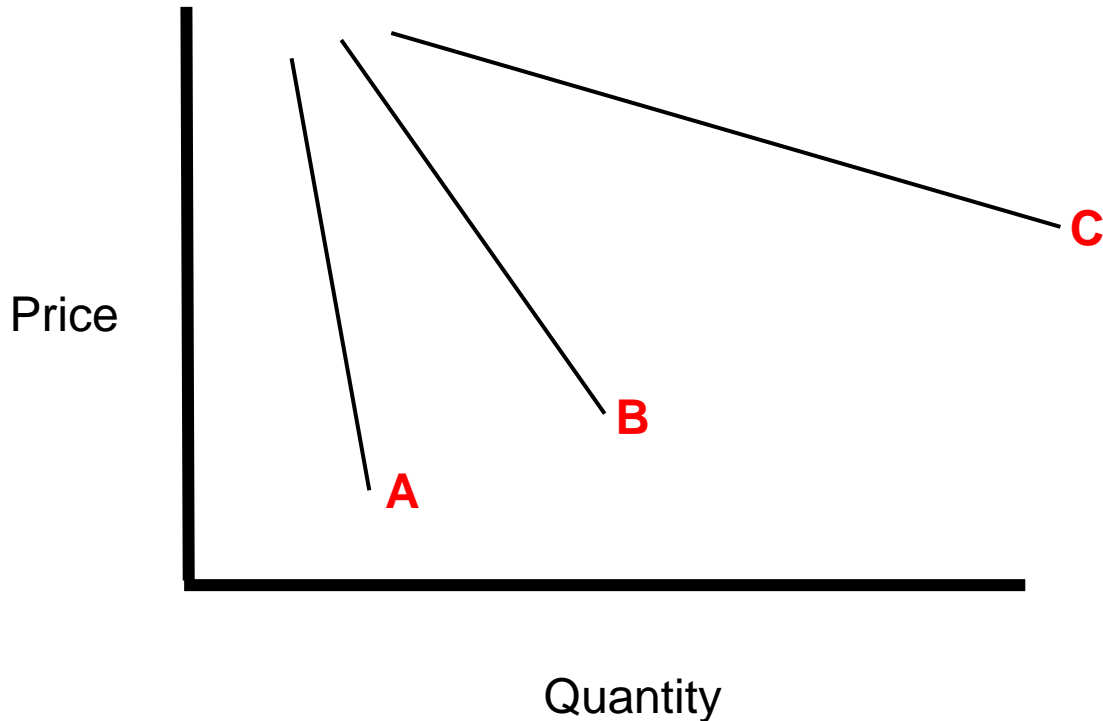
**Classwork:** There's a Unit II Exam on Friday that covers chapters 4-6. Work on the following items.

1. **Page 20: Ch. 4 and 5 Review** – Handwrite your responses on page 20 of your notebooks. You do not need to write the questions, simply answer in complete sentences.
  - a. Chapter 4 Assessment (pgs. 126-127) - #2, 5, 7, 8, and 12
  - b. Chapter 5 Assessment (pgs. 160-161) - #4, 5, 6, 10, and 11
2. **Finish Page 19 - Super Bowl Questions.**
3. **Review Notebook:** Make sure your notebooks are caught up (pgs. 11-20). Obtain missing pages from a neighbor.



# EXIT TICKET

**Directions:** Answer the following questions on your slip of paper.



## Questions:

1. Which of the following demand curves is most elastic?
2. Which of the following demand curves is most inelastic?
3. How do you know this?

