

## --BASICS OF SUPPLY AND DEMAND NOTES--

### PART ONE: RELATIONSHIPS

1. Describe the relationship between **demand** and **price**.

D  $\uparrow$  P  $\uparrow$ , D  $\downarrow$  P  $\downarrow$

2. Describe the relationship between **supply** and **price**.

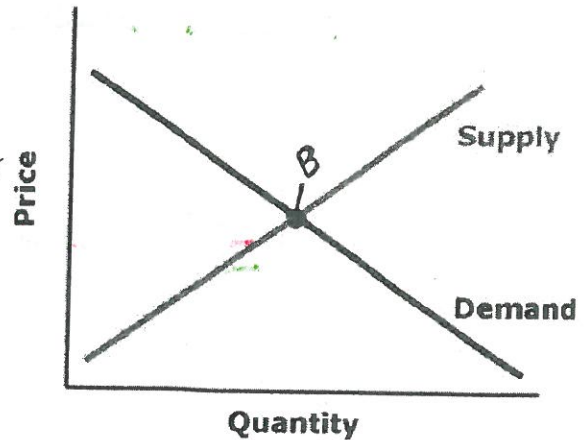
S  $\uparrow$  P  $\downarrow$ , S  $\downarrow$  P  $\uparrow$

3. Describe the relationship between **supply** and **demand**.

S  $\uparrow$  D  $\downarrow$ , S  $\downarrow$  D  $\uparrow$

Point B. The point where supply and demand cross is called the equilibrium.

\*\*\* This designates the best price and quantity for a good or service. At this point the producer will be able to make a profit and consumers will feel like they are getting a fair price.



### PART TWO: SCENARIOS

**Scenario One: Roses are red, violets are blue.**

1. The price of roses goes  $\uparrow$  right before Valentine's Day because demand is high

2. If a freeze killed off half of the rose crop in early February rose supply is low, so the price of roses would go up even more!

3. If half the rose crop dies, the demand for fine chocolates would probably go up.

Explain what happens to demand, supply, and price in the scenarios.

A. Christmas ornaments during the month of January

D $\downarrow$ , S $\uparrow$ , P $\downarrow$

B. Hockey tickets during the Stanley Cup playoffs

D $\uparrow$ , S $\downarrow$ , P $\uparrow$

C. Gas stations on interstate highway exits

D $\uparrow$ , S $\downarrow$ , P $\uparrow$

### PART THREE: SHORTAGE or SURPLUS

1. If **supply** is greater than **demand** of a product, this is a Surplus.

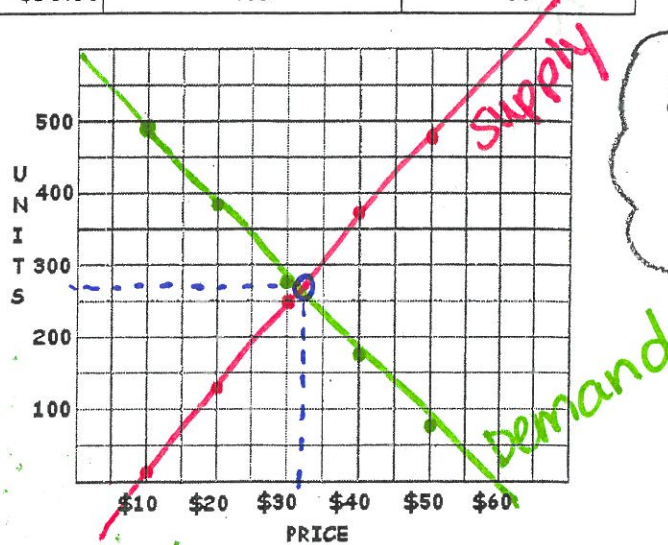
2. If **demand** is greater than the **supply** of a product this is a Shortage.

### 2.1 Activity Sheet 1 - Supply and Demand Introduction

Riley's clothing store wants to set a price for a new pair of jeans. Help Riley find the best price that will satisfy both customers and Riley.

1. Plot the points for selling price and number supplied on the graph below. Draw a line through these points and mark the line "Supply".
2. Plot the points for selling price and number demanded. Draw a line through these points and mark the line "Demand".
3. Estimate where supply and demand are equal (in equilibrium). Circle this point and identify the selling price and units sold.

<u>Selling Price</u>	<u>Number Supplied</u>	<u>Number Demanded</u>
\$10.00	17	496
\$20.00	134	392
\$30.00	251	288
\$40.00	368	184
\$50.00	485	80



Equilibrium -  
Price: ~ \$32  
Units: ~ 265