Name ______________________ Date ______________ Flocabulary

Supply & Demand

Engage

BRADLEY: Lemonade, get your lemonade! Only $1

BRIANA: Hey Bradley, how are the sales going?

BRADLEY: Not great. For some reason I can't sell a single cup!

BRIANA: Well of course not, all the business is across the street.

BOOGIE: Thank you.

BRADLEY: That little— Why I oughta—

BRIANA: He's always had a knack for business, that one. Cutthroat, even for today's market.

BRADLEY: Market?! Before he set up shop it was just me and my lemons!

Explore

BRIANA: Well, a market is any place where buyers and sellers voluntarily make transactions—it's called voluntary exchange! It could be a supermarket, farmer's market, record store, or a couple of lemonade stands!

BRADLEY: So why aren't people voluntarily exchanging their money for my lemonade, I was here first!

BRIANA: Well, you're selling your lemonade for $1. That means that you value the dollar more than a cup of lemonade, right?

BRADLEY: Yeah.

BRIANA: And whoever's buying your lemonade would have to value the lemonade more than $1.

BRADLEY: Yeah!

BRAIANA: But if someone else is selling the same lemonade for half the price, people are more likely to spend less money to get the same product.

BRADLEY: Yeah. But Boogie seems to be raking in the cash over there, so clearly the market wants lemonade. How do I know what to set my price to?

Explain

BRIANA: Well, price is related to two market forces called supply and demand.

BRADLEY: Feels like you're about to show a visual.

BRIANA: Yup, here it is. This is the supply curve. Supply comes from sellers. If prices go up, they will make more lemonade. If prices go down, the sellers will make less lemonade. This is the law of supply: price increases, quantity supplied increases; price decreases, quantity supplied decreases.

BRADLEY: OK, I think that makes sense.

BRIANA: And this is the demand curve. Demand comes from buyers. If price goes up, people buy less. If price goes down, they buy more. This is the law of demand: price increases, quantity demanded decreases; price decreases, quantity demanded increases.

BRADLEY: Well, I want people to buy more, so I guess I have to bring the price down, like Boogie did. OK, I can be cheap!

Elaborate

BRADLEY: Glockenspiel! How am I going to continue my supply of lemonade now? He's pushing me out of the market! Well, I give up.

BRIANA: But watch: He has so many lemons and so much lemonade now, but he's raised his price, and nobody wants to pay $2 for a cup! He's going to have a surplus: quantity supplied is greater than quantity demanded. He'll make more money per cup, but won't sell very many cups.

BRADLEY: That'll show him!

BRIANNA: Hey, I'm sure people will want to buy your cheaper lemonade now.

BRADLEY: Aw, man. All out.

BRIANNA: But you don't have enough to sell. That's called a shortage: quantity demanded is greater than quantity supplied.

BRADLEY: So now Boogie can lower prices or maybe figure out a way to increase demand?

BRIANNA: Hmm, looks like he's already figured out how to do that.

BRADLEY: Heat lamps? Oh for gub's sake. I'm about to lose it! How much can he charge now?

BRIANNA: Well, now that Boogie's figured out how to increase demand, $2 is now the equilibrium price: the point at which supply and demand curves intersect. The quantity buyers want to buy is exactly equal to the quantity sellers want to sell. Supply and demand are balanced.

BRADLEY: This information infuriates me.

BRIANNA: It is pretty hot. Some ice cold lemonade does sound really good right now.

BRADLEY: I'm all out.

BRIANNA: Oh, that's OK. I think I'm looking for something extra cold anyway.

BRADLEY: That does seem like it would hit the spot. And I almost have $2. Maybe he'll give me a deal. Hey, Boogie!