

Name _____ Date _____

Supply & Demand

How Supply & Demand Affect Price

Learn more about this topic! Each section gives more detail on one of the lyrics from the song. Read each section, and then respond by answering the question or taking notes on key ideas.

1. An economy is the system of producing, buying and selling goods in a country. Goods are things that people make or grow. Action figures and apples are examples of goods. A service is work that people do for other people. Cleaning houses, teaching and running a restaurant are examples of services. Producers make or grow goods or provide services. Consumers buy these goods and services. In an economy, the prices of goods and services go up and down. The changes in price are related to how many goods and services are available and how many of them people want.

Notes

2.



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The supply of apples is high.

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Supply is the amount of a good or service that's available to buy. If there

are 70 birthday cakes available for sale, the supply is 70. When there's a lot of a good or service available, we say the supply is high. When there's not much available, we say the supply is low. Demand is how much of a good or service people want to buy. If 50 people each want to buy a birthday cake, the demand is 50. Demand is high when many people want to buy a good or service. It is low when not many people want to buy the good or service.

Notes

3. Nature and the environment can affect the supply of a good or service. For example, almonds need a lot of water to grow. If there's a drought, a long period of time with little or no rain, it can become harder to grow almonds. The cost of producing a good or service can also affect its supply. Imagine a new toy is very expensive to make. To save money, producers may not supply as many of the toy.

Sometimes, people are not able to buy all the goods and services they want because the goods and services are not available. People cannot find the goods or services or have trouble finding them. This is called scarcity. The good or service that is in very low supply is scarce.

Notes

4.



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A product's price depends on supply and demand.

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When a lot of people want to buy something, but it's hard to find, the price often goes up. Imagine that a lot of people want to buy almonds because they're healthy and are used in many recipes.

Demand for almonds would be high. But if there's a drought, almonds may be hard to find. When almonds are scarce, people may be willing to pay more for them. The almond producers can raise the price.

Notes

5. Imagine a scientific study comes out saying that almonds are not actually that healthy. Fewer people might want to buy almonds. Demand for almonds would go down. Almonds pile up because not many people are buying them. To encourage people to buy almonds, the producers may lower the price. The change in price of a good or service often follows the change in demand. When demand goes down, price goes down. When demand goes up, price goes up.

Notes

6.



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Consumers are more willing to buy products at lower prices.

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We've seen how price changes as a result of supply and demand. Well, the

supply of something and the demand for it can also change as a result of the price! When the price of something is high, producers want to supply more of it for people to buy. They want to make more money by selling more of the product at a higher price. This is called the Law of Supply. On the other hand, when the price of something is high, the demand for it often goes down. Consumers want to save money. So, the more expensive something is, the less they want to buy it. This is called the Law of Demand.

Notes

7. For any good or service, there's a price where the supply is exactly the same as the demand. Producers are willing to supply a certain amount of the good or service at that price. And consumers are willing to buy the same amount of the good or service at that price. This is called the equilibrium point. It's also called the market-clearing price. When supply and demand become equal like this, people say "the market has cleared."

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