

Name _____

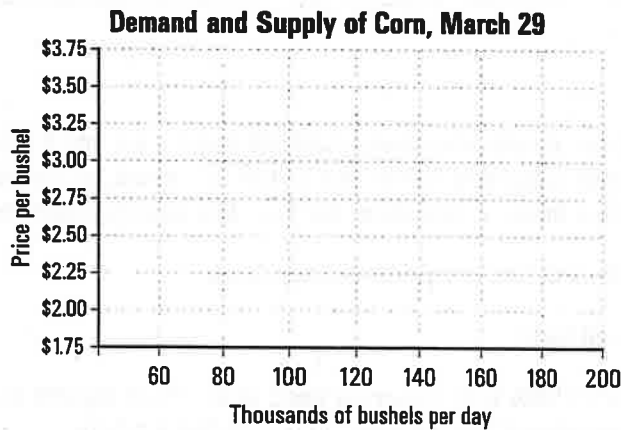
Date _____

ECONOMIC SKILLS LAB ECONOMICS ON A GRAPH-GRAPHING

The following table presents the demand and supply of corn on March 29.

DEMAND AND SUPPLY FOR CORN, MARCH 29		
Price per Bushel	Number of Bushels People Want to Buy (in thousands)	Number of Bushels People Want to Sell (in thousands)
\$3.50	80	200
\$3.25	100	180
\$3.00	120	160
\$2.75	140	140
\$2.50	160	120
\$2.25	180	100
\$2.00	200	60

Use the graph below to plot the demand for corn shown in columns 1 and 2 in the table. Connect the points and label the line "D." The line you have drawn is the *demand curve* for corn. Draw the supply curve in the same way by using columns 1 and 3. Connect the points to complete the *supply curve*. Label this curve "S."



1. What is the market-clearing price of corn in the graph you have drawn?

2. Suppose the price of corn is \$3.25 per bushel. Is there a shortage or a surplus of corn at that price? If so, how big is it?

3. Suppose the price of corn is \$2.25 per bushel. Is there a shortage or surplus of corn at that price? If so, how big is it?

4. If the price of corn is above its market-clearing level, there is a surplus. Does this mean corn is no longer scarce? Explain.

5. MARKET-CLEARING PRICE

Name _____ Date _____

ECONOMIC SKILLS LAB ANALYZING EVENTS

1. Supermarkets in a given area compete directly with one another, but their competitors aren't just rival grocery stores. They're also sellers who offer close substitutes.

For example, instead of buying all their groceries at supermarkets, consumers have increasingly turned to restaurants for their meals. Further, discount stores like Wal-Mart, Price Club, and K-Mart have begun offering shoppers various groceries at greatly reduced prices.

- a. Is the increased competition likely to affect the market-clearing prices of groceries? Briefly explain.

- b. Think of wage rates as market-clearing prices for labor. Do you think the increased competition for groceries would affect the wages that supermarkets pay their employees? Explain.

2. Consider the following facts:

Fact A: In South Korean cities many people who want a taxi ride step far out into the street to compete with other customers. Even then, many taxi drivers don't stop. As a result, people shout to the passing taxis that they will pay two, three, or four times the fare. This usually makes the drivers stop.

Fact B: The South Korean government sets low prices for taxi fares.

Now, consider these two additional facts:

Fact C: During the 1970s and early 1980s U.S. motorists lined up at service stations and waited to buy gasoline. Some people even hired "gas jockeys" to wait in line for them.

Fact D: During these years the U.S. government kept the price of gasoline low.

- a. Use economic thinking about market-clearing prices to explain the two instances of consumer behavior.

- b. Do these behaviors show a difference between market competition and other forms of competition? Explain.

5. MARKET-CLEARING PRICE

Name _____ Date _____

ECONOMIC SKILLS LAB

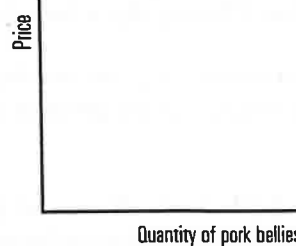
TWO STRIPS OF BACON ON A MARKET-CLEARING PRICE

The year of the bacon burger was 1995. It seemed as if every hamburger restaurant in the United States added a couple of strips of bacon to its burgers in that year. Two pieces may not sound like much, but when you multiply them by millions of burgers, they add up to a lot of bacon.

Bacon is made from slabs of uncured pork called pork bellies. Not surprisingly, the price of pork bellies rose by nearly 50 percent during 1995. Fortunately for bacon fans, the price increase was short-lived. After a couple of months, producers introduced more pork to the market, causing the price to fall back toward its original level.

1. Did pork bellies become scarcer during 1995? Explain.

2. Use this blank graph to draw your own demand and supply curves to show why the price of pork bellies soared during 1995. (Instead of plotting specific numbers for demand and supply, just sketch the appropriate curves.)



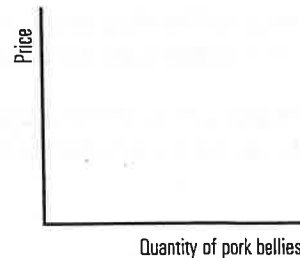
3. Refer to the graph you have drawn for each of the following:

- a. What pushed up the price of pork bellies?

- b. What would have occurred if the government had prevented the price of pork bellies from rising above its original level?

- c. Was the higher price the market's method of rationing available supplies? Explain.

4. Use this blank graph to show why the price of pork bellies dropped back toward its original level.



5. Besides illustrating the rationing function of market prices, the example also shows another important function of those prices. Explain that function.

5. MARKET-CLEARING PRICE

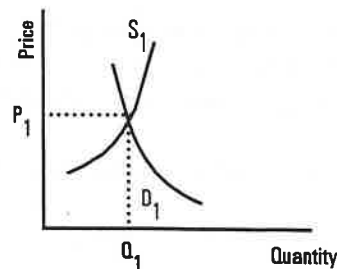
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ECONOMIC SKILLS LAB

APPLYING THE LAWS OF SUPPLY AND DEMAND

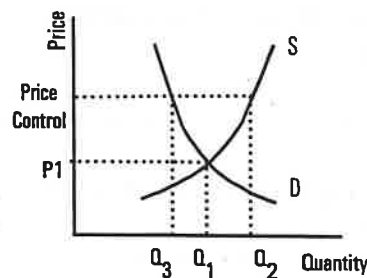
We can't actually see demand and supply curves, but they are all around us, shifting this way and that. We know this because we can observe the changes they produce in market-clearing prices.

- The world population has been growing, and incomes have increased. Improved seeds, fertilizers, irrigation practices, and cultivation methods have increased the productivity of farms around the world. The prices of agricultural products like wheat and corn have fallen over the last 30 years.



Add a new demand curve (D_2) and a new supply curve (S_2) on the graph to the right to explain the situation described above.

- In some countries government programs set prices for crops like wheat above market-clearing levels. Use the graph to the right to answer the following questions.



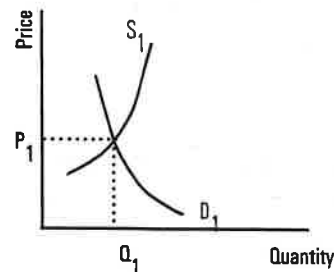
- What effect do you think these government price policies have had on the amounts of these crops grown in these countries?

- What effect do these price controls have on the amount of the crops demanded?

- Would these government policies cause a shortage or surplus of crops?

- Some people fear the world will soon experience widespread food shortages and soaring food prices. They argue that food supply will grow more slowly because many farms throughout the world are being converted to industrial parks and housing projects. At the same time, populations are growing and incomes are increasing.

Draw new supply and demand curves on the graph to the right to explain the situation described above. Add a new demand curve (D_2) and a new supply curve (S_2).



- Others argue that the world's supply of grain is temporarily low because farmers in Russia and other former Soviet states have experienced political turmoil and bad weather. Also, farmers in the United States are seeing the end of government farm policies that kept prices of farm products artificially high. In future years, they see farmers worldwide making greater use of technology and scientific farming methods.

Explain what you think these people are expecting to happen to grain prices in the future.

