

# Lesson 3

## S U P P L Y & D E M A N D

*Determining the Right Price*

### OVERVIEW:

The supply and demand for goods and services are important factors in determining the selling price consumers are willing to pay and the quantity suppliers are willing to produce. As the demand increases, suppliers are more willing to make available their goods and services because they can charge consumers a higher price. As the demand decreases, suppliers are less willing to make available their goods and services because they cannot charge consumers a premium price.

Suppliers often offer discounts on their goods and services if the demand is low or if the supply is much greater than the demand. When the demand for a good or service is greater than the supply, suppliers can charge as much as the consumer is willing and able to pay.

For example, consumers are willing to pay top price for the latest designer jeans, making demand for the product strong and inventory in stores low. However, when the next fashion craze takes hold and the jeans become less popular, consumers are no longer willing to pay a high price and stores may have excess inventory. At that point, stores will have a sale, thereby reducing the price of the item in an attempt to reduce inventory and make room for the next hot item.

### ACTIVITY:

#### ***Supply and Demand: Determining the selling price of concert tickets***

As a concert promoter, you are responsible for marketing concerts and selling tickets for up-and-coming bands. For the next concert, you have set the ticket price based on the cost of the concert plus a profit.

1. If in the first weeks of marketing the concert you realize you are about to sell-out the concert hall for all the dates scheduled, what would you do?
2. If in the first weeks of marketing the concert you realize that you are not going to be able to fill the concert hall for most of the dates scheduled, what would you do?
3. Would you ever sell tickets for an amount that would not cover the cost of the concert?

***Seasonality and Holidays: Supply and Demand Issues***

- A. The supply of and demand for many products and goods vary with the seasons, and as a result so too does the price of these goods and services. Consider the summer and winter season in different parts of the country. Can you name some products or goods in which the price might increase or decrease due to supply and demand?
- B. The demand for many products and goods increase during holidays, and as a result so too does the price of these goods and services.
- 1) Consider the price of roses. What time of the year are roses most expensive due to increased demand?
  - 2) Consider the price of a gallon of gas. What time of year is gas most expensive due to increased demand?
- C. Can you name other products or goods in which the price increases or decreases due to changes in demand? Or, can you name products in which the price increases because they are rare, unique and in short supply?