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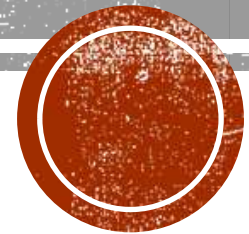
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SUPPLY AND DEMAND

Toys to Fads



OBJECTIVES

STUDENTS WILL

- Define supply and demand
- Draw a supply and demand curve and label the parts
- Demonstrate the relationship that prices play in supply and demand for different goods and services
- Define surplus, shortage, and equilibrium
- Label the parts of the supply and demand curve which identify shortage, surplus, and equilibrium



IMPORTANT KEY TERMS

- **Demand:** The quantity of a good or service that buyers are ***willing and able*** to buy at all possible prices
- **Supply:** The amount of a good or service that producers are ***willing and able*** to offer for sale at each possible price
- **Equilibrium Price:** The price at which the quantity demanded by buyers equals the quantity supplied by sellers



IMPORTANT KEY TERMS CONT...

- **Surplus:** The situation that results when the quantity supplied of a product exceeds the quantity demanded. Generally happens because the price of the product is above the market equilibrium price.
 - Example: Marshall's, TJ Max, Overstock.com
 - Seasonal goods, excess inventory, shelf pulls
- **Shortage:** The situation that results when the quantity demanded for a product exceeds the quantity supplied. Generally happens because the price of the product is below the market equilibrium price.
- Quantity demand > supply offered



LETS MAKE A REAL LIFE CONNECTION

- In 1958, Wham-O, Inc. began marketing the Hula Hoop in the United States.
- Sales of the Hula Hoops skyrocketed during the year
 - over 25 million were sold within the first few months
 - over 200 million within the first year
- Similarly today, Silly Bandz have taken off in sales since the summer of 2008.
- According to the company Brainchild Product, Silly Banz have gone from shipping 20 boxes a day to about 1,500.



THE HUDSUCKER PROXY AND THE HULA HOOP

- In 1994, the film The Hudsucker Proxy portrays a fictionalized account of the demand for Hula Hoops as they were introduced into the market.
- As you view this video, answer the following questions in the notes section below the slide: <https://www.youtube.com/watch?v=Ng3XHPdexNM>

1. Why does a business owner lower the price of products that are not selling quickly?

2. When would a business owner have the incentive to raise prices?

3. What does a higher price than before for a product communicate to consumers about the demand for that product?



SILLY BANDZ

- In order to gain some background information about the demand for Silly Bandz, take a look at the following news stories from ABC and USA Today.
- As you watch this video clip, apply what you've learned from the video clip Hudsucker Proxy, and apply what you've learned about demand and its relationship to prices.

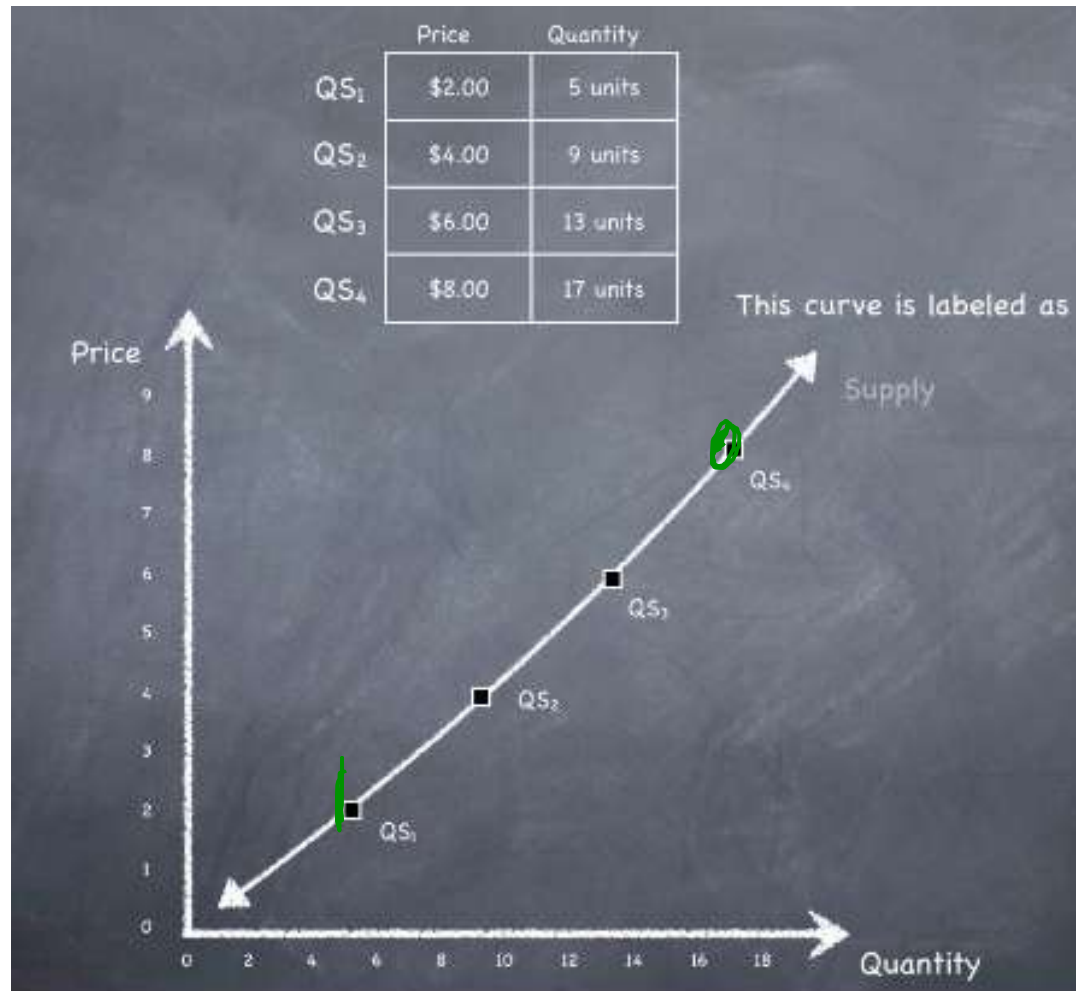
http://usatoday30.usatoday.com/money/smallbusiness/2010-07-01-sillybandz01_CV_N.htm

<http://abcnews.go.com/Nightline/video/silly-bandz-latest-fad-11686769>

- Answer these questions in the notes sections below the slide:
 1. *What information is being communicated to the business owner by the \$5 price of Silly Bandz?*
 2. *What can the business owner do to ensure that the Silly Bandz are allocated to those consumers, which value them the most?*
 3. *What role could other competitors play in the fluctuation of prices?*



SUPPLY GRAPH



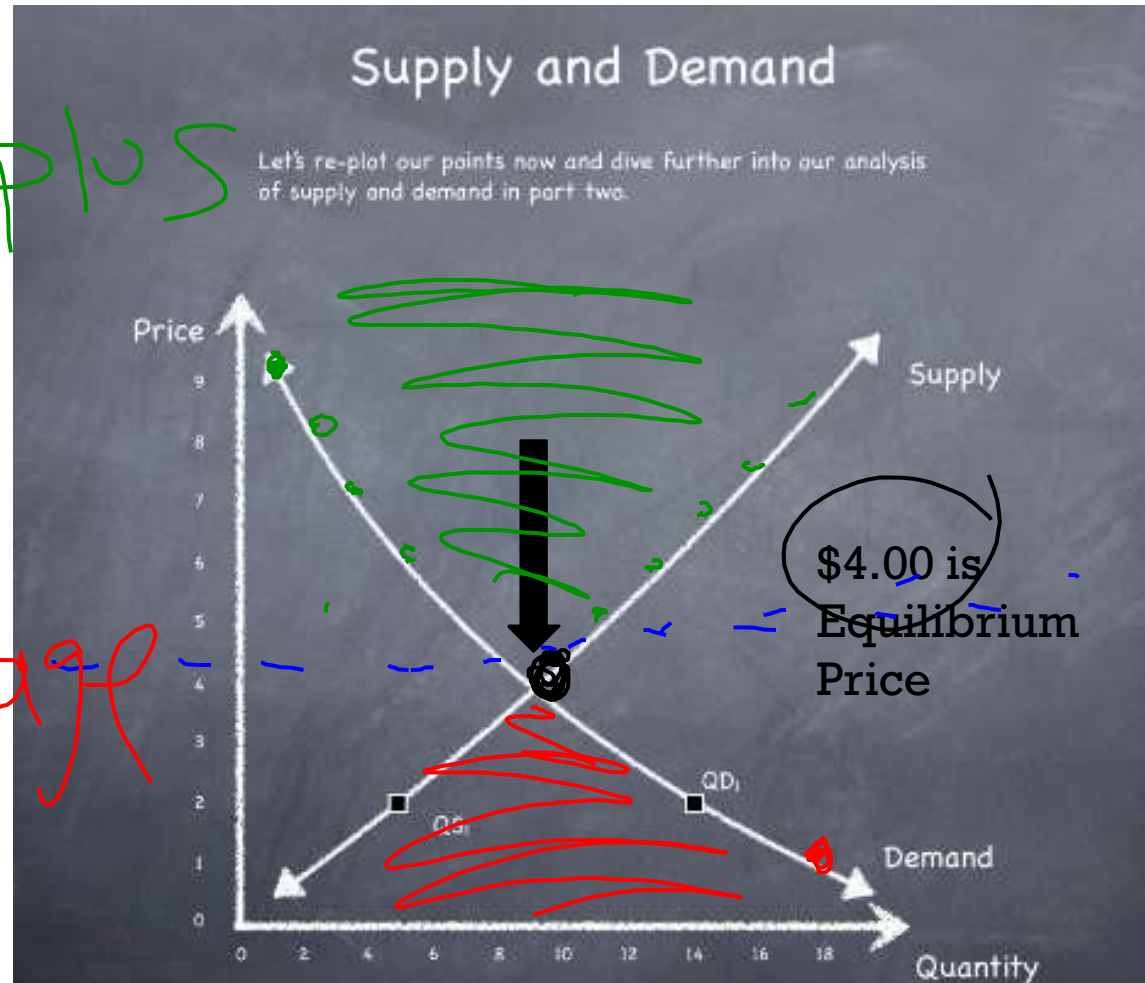
DEMAND GRAPH



EQUILIBRIUM PRICE

Surplus

Shortage



- 1 Supply
- 2 Demand
- 3 E Price
- 4 Surplus
- 5 Shortage



CONCLUSION

- The laws of supply and demand can be used to show the relationship between producers and consumers
- Prices are used in the market to help producers and consumers communicate with one another
- If the supply of a product matches the demand for the product, the price is said to be at equilibrium and the quantity supplied will match the quantity demanded
- If the price of a product is too high, then supply will exceed the demand, and there will be excess supply or a surplus of goods or services
- If the price of a product is too low then demand, will exceed supply and there will be excess demand or a shortage of goods or services



CONCLUSION CONTINUED...

- Hula Hoops and Silly Bandz exemplify how changes in demand for consumer products can shift tremendously over short time periods.
- The video clip from the *Hudsucker Proxy* provides an example of how prices are changed in response to demand.
- Prices will rise or fall based on the supply and demand for goods or services.
- The change in demand for Hula Hoops initially decreased the price due to a lack of demand.
- Subsequently demand sky-rocketed for Hula Hoops and led to a large increase in the price level, as consumers who wanted to buy a Hula Hoop were willing and able to pay more for the toy.



CONCLUSION CONTINUED...

- Today, we have seen a similar rise in demand for Silly Bandz, however the price level for Silly Bandz has not risen
- Producers of Silly Bandz are sensitive to the idea of raising the price for their product; part of their marketing strategy is that their toy is a cheap alternative to video games and other children's toys that are more expensive
- Given their unwillingness to raise prices, continued excess demand can only be met by increasing the supply, which includes substitute brands entering into the market and gathering market share



DO NOW

USE THE HAND OUT PROVIDED TO COMPLETE THE FOLLOWING TASK

- Draw a Supply and Demand schedule using the following figures. Label all necessary parts and be sure to properly label the locations of price quantity, supply, demand, equilibrium price, surplus and shortage.

Supply

	Price	Quantity			Price	Quantity
QS1	\$2.00	2		QD1	\$2.00	17
QS2	\$4.00	8		QD2	\$4.00	8
QS3	\$7.00	12		QD3	\$7.00	5
QS4	\$10.00	14		QD4	\$10.00	3

Demand



TEST REVIEW QUESTION- SUPPLY & DEMAND

USE THE HAND OUT PROVIDED TO COMPLETE THE FOLLOWING TASK

- Draw a Supply and Demand schedule using the following figures. Label all necessary parts and be sure to properly label the locations of price quantity, supply, demand, equilibrium price, surplus and shortage.

Supply

	Price	Quantity			Price	Quantity
QS1	\$3.00	3		QD1	\$1.00	14
QS2	\$5.00	10		QD2	\$3.00	12
QS3	\$8.00	13		QD3	\$5.00	10
QS4	\$11.00	16		QD4	\$8.00	8

Demand

