Push and Pull — Shifts in Supply & Demand

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SUBJECT(S): Economics

GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:

In this lesson, we look at shifts in the aggregate supply and demand curves. Using the article "After Reading Fast Food Nation, You May Want to Hold the Fries," students will look specifically at the fast food industry, examining how and why supply and demand will shift at a given price.

NBEA STANDARD(S):

- Economics, I. Allocation of Resources
- Economics, IV. Markets and Prices

RELATED ARTICLES:

- "Robots Advance: Automation in Burger Flipping and Beyond"
- "A Conversation on Trade and Manufacturing"

Objectives/Purposes: The purpose of this lesson is for students to understand the major factors that affect aggregate supply and demand.

- Students will be able to explain the causes of a shift in supply.
- Students will be able to explain the causes of a shift in demand.
- Students will understand how shifts in supply and demand affect equilibrium prices.

Knowledge@Wharton Article: " After Reading Fast Food Nation, You May Want to Hold the Fries"

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Butcher Paper
- Markers

Activity:

The lesson is divided into five parts: (1) Introduction and Group Work, (2) Guided Reading, (3) Class Discussion, (4) Exploration Activity and finally (5) Closing

1. Introduction and Group Work (15-20 mins)

Open the lesson by reminding students of *the law of supply*, *the law of demand* and *equilibrium price.* Draw a standard supply and demand graph on the board for students to see (Figure 1). As you draw, remind students that companies are willing to supply more of their products at high prices, and that customers demand more of a product at low prices. Next, point out what happens when price is below equilibrium (i.e. suppliers will raise the price), and what happens when price is above equilibrium (i.e. suppliers will have surplus).

Next, have students break into small groups. Give each group a large piece of butcher paper. Ask the groups to think about demand. In particular, ask the groups what *affects* demand. It may help to give the students a particular product or service. *(Because we will be looking at fast-food later in the lesson, we recommend a fast-food or restaurant related product/service.*) Once you have settled on a product, ask each group to create a list, enumerating all the things that they think will affect demand for a particular product. Give the groups five minutes to work.

Figure 1

After five minutes, have the groups report back to the class. Keep a list of group responses on the board. Without telling students, try to group their responses. Eventually you want to connect their lists with the formal components of demand: (1) changes in the price of related goods, (2) changes in income, (3) changes in preferences.

As you create these groups, explain to students the rationale behind each. (It may help to include graphs; see Figure 2). When preferences change, when people *like* something more, they demand more of it at the same price. For example, if I have never tried caviar, I don't have any preference. I have a neutral opinion (or perhaps even negative). However, if I try caviar and enjoy it, my preferences change. Now my demand for caviar will also change. Similarly, if my income changes, I can afford to buy more of any product at a given price. My demand curve shifts outward. Finally, if the price of related goods change, my demand could also change. If the price of Pepsi doubles, my demand for Coca-Cola will probably increase. The money I used to spend on Pepsi will now be spent buying more Coca-Cola.

Figure 2

After this discussion, give the groups a second piece of paper. This time, ask the students to think about supply. What kinds of things affect supply? Give the groups five minutes to work.

After five minutes, have the groups report back to the class. Keep a list of group responses on the board. Without telling students, try to group their responses. Eventually you want to connect their lists with the formal components of supply: (1) Changes in the price of inputs, and (2) changes in technology.

As you create these groups, explain to students the rationale behind each. For example, when the price of inputs increases, businesses provide less of their products for the same price. Labor is a good example. If a business has to pay its employees twice as much, what will happen? How will it make up for this increased cost? Changes in technology have a similar affect. What if new technology makes every worker twice as efficient? Instead of producing 5 cupcakes per hour, your employee can make ten. What will happen to the supply of cupcakes at a given price?

2. Guided Reading (5-10 mins)

Students should read through an excerpt of the Knowledge@Wharton article "After Reading Fast Food Nation, You May Want to Hold the Fries," (Paragraphs 4 through 17). Before students start reading, ask them to think about their group work. In particular, have them think about the components of supply and the components of demand.

3. Class Discussion (1-5 mins)

Once students have finished reading, ask them to summarize the article. Follow up on comments related to changes in fast food supply (e.g. labor, IDP) and demand (consumer choices/preferences). If students don't point to these issues, highlight them yourself by posing pointed questions. For example, "Based on the article, what do you think contributes to the cost of fast food?" Encourage students to connect their own findings to the formal categories created earlier.

4. Exploration Activity (10-15 mins)

Have students break into small groups. In this activity students will look at the affect that shifts in supply and demand have on equilibrium prices. Provide each group with a copy of Worksheet 5: Falling Fries.

5. Closing (1-5 mins)

Use the remaining time to clarify any confusion the students might have. Make sure to connect their group responses to the formal explanations outlined above. Reiterate the fact that a shift in supply or demand refers to changes in quantity when price is held constant.

Practice Outside of the Classroom:

Ask your students to think about their current job, or jobs they have held in the past. These can be formal or informal jobs. Have students think about the components of supply and demand. How did these components affect their salary?

What Worked and What I Would Do Differently

It is important to introduce the components of supply and demand early, (perhaps even in earlier lessons). The sooner students can grasp how things like taste, price and income affect demand, the better. Take extra time to give students examples of how each component affects demand. Do the same for supply as well. This initial investment will pay off.