

Standard 7 : Markets - Price and Quantity Determination

Students will understand that:

Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

Students will be able to use this knowledge to:

Identify markets in which they have participated as a buyer and as a seller and describe how the interaction of all buyers and sellers influences prices. Also, predict how prices change when there is either a shortage or surplus of the product available.

In market economies there is no central planning agency that decides how many different kinds of sandwiches are provided for lunch every day at restaurants and stores, how many loaves of bread are baked, how many toys are produced before the holidays, or what the prices will be for the sandwiches, bread, and toys. Students should understand that, instead, most prices in market economies are established by the interaction between buyers and sellers.

Understanding how market prices and output levels are determined helps people anticipate market opportunities and make better choices as consumers and producers. It will also help them realize that market allocations are impersonal.

Benchmarks

Grade 4

At the completion of Grade 4, students will know that:	At the completion of Grade 4, students will use this knowledge to:
A price is what people pay when they buy a good or service, and what they receive when they sell a good or service.	Identify prices they have paid for a hamburger, french fries, and a soda, and prices they have received for selling lemonade, feeding a neighbor's pet while its owner is on vacation, or doing certain household chores.
A market exists whenever buyers and sellers exchange goods and services.	Give examples of markets in which buyers and sellers meet face-to-face and other markets in which buyers and sellers never meet.
Most people produce and consume. As producers they make goods and services; as consumers they use goods and services.	Identify people who are acting as consumers and provide examples of situations in which the students were consumers of goods and services. Identify people who are acting as producers, and provide examples of situations in which the

	students produced goods and services.
--	---------------------------------------

Grade 8

At the completion of Grade 8, students will know the Grade 4 benchmarks for this standard, and also that:	At the completion of Grade 8, students will use this knowledge to:
Market prices are determined through the buying and selling decisions made by buyers and sellers.	Play a market game in which buyers and sellers determine the market price for a common product, for example. wheat, apples, baseballs.
Relative prices refers to the price of one good or service compared to the prices of other goods and services. Relative prices are the basic measures of the relative scarcity of products when prices are set by market forces (supply and demand).	Explain in terms of relative scarcity why people are willing to pay higher prices for diamonds than for water, even though water is necessary for life and diamonds are not.
The market clearing or equilibrium price for a good or service is the one price at which quantity supplied equals quantity demanded.	Determine the market clearing price when given a supply schedule and a demand schedule for compact discs.
If a price is above the market clearing price, it will fall, causing sellers to produce less and buyers to purchase more; if it is below the market clearing price, it will rise, causing sellers to produce more and buyers to purchase less.	Identify examples of products for which the price fell because sellers were unable to sell all they had produced; identify examples of other products for which the price rose because consumers wanted to buy more than producers were producing.
An exchange rate is the price of one nation's currency in terms of another nations currency. Like other prices, exchange rates are determined by the forces of supply and demand. Foreign exchange markets allocate international currencies.	Calculate the following: (1) If the British pound is worth \$1.42. How much would you have to pay in England for a compact disk that is worth \$16.00? (2) If the Canadian dollar is equal to \$.72 in American money. What is the Canadian equivalent of \$15.00 American? (3) If it takes 1372 Italian lira to buy \$1.00. How much is an Italian sweater purchased for 27,000 lira in American dollars?

Grade 12

At the completion of Grade 12, students will know the Grade 4 and Grade 8	At the completion of Grade 12, students will use this knowledge to:
--	--

benchmarks for this standard, and also that:	
A shortage occurs when buyers want to purchase more than producers want to sell at the prevailing price.	Explain why there is usually a shortage of batteries in areas where forecasters predict a hurricane and why apple bins in grocery stores are empty when disease has destroyed half of the Washington apple crop.
A surplus occurs when producers want to sell more than buyers want to purchase at the prevailing price.	Explain why there is often a late-season surplus of tickets available for the home contests of a baseball team that loses most of its games.
Shortages of a product usually result in price increases in a market economy; surpluses usually result in price decreases.	Explain what happened (and why) to the price of tickets to sporting events purchased from scalpers when many more people want to attend those events than the number of seats in the stadium or arena. Also, explain what will happen to the price of a rare misprinted stamp if the postal service prints another 100,000 stamps in the same way.
When the exchange rate between two currencies changes, the relative prices of the goods and services traded among countries using those currencies change; as a result, some groups gain and others lose.	Use the following scenarios to analyze the effects on trade of a change in exchange rates: In one year, the American dollar equaled 250 Japanese yen; in the following year, the American dollar equaled 150 yen; and in the third year, it equaled 200 yen. If a Nikon camera costs 75,000 yen and Sony Walkman radio costs 25,000 yen: (1) What will be the price in dollars of these two products in each year for an American? (2) Will an American want to buy more or fewer Japanese products in year one, in year two, and in year three? Explain.