Lunch Market Moves

Follow the flows and find the price that clears the market

SS24.E.4 "Draw conclusions about how supply, demand, and price interact in a market economy. 4a Utilize circular flow diagrams to illustrate and explain the operation of the product market; the operation of the factor market..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one flow of labor or meals and circle the payment that moves in the opposite direction. Number the shortage, equilibrium, and surplus prices in the passage 1, 2, and 3.

What a Lunch Bowl Reveals

1 At a downtown lunch market, households supply labor to restaurants through the factor market. Restaurants pay workers wages, a money flow opposite to the flow of labor. In the product market, restaurants provide meals to households, which pay for them. The city also buys meals from restaurants for a public shelter, using tax revenue collected from households and businesses.

2 The table shows daily demand and supply for identical lunch bowls at this market. At each price, it lists how many bowls customers would buy and restaurants would offer if other conditions stayed the same. At $8, planned purchases equal planned sales. At $6, buyers seek more bowls than sellers offer. This shortage gives sellers an incentive to raise prices.

DAILY MARKET FOR LUNCH BOWLS

Price per bowl	Bowls demanded	Bowls supplied
$6	80	40
$8	60	60
$10	40	80

3 At $10, restaurants offer more bowls than customers want, creating a surplus. Discounts encourage purchases and discourage production, moving price toward $8. Price changes create incentives. A new office nearby increases demand at every price, while higher rice costs reduce supply at every price. Either shift changes equilibrium, even if no seller changes the price first.

2 ANSWER WITH EVIDENCE

Use the passage

1. In the factor market, who supplies labor, who buys it, and what payment flows in the opposite direction?

2. How does the city take part in the product market, and where does its payment come from?

3. Use the table to calculate the shortage at $6. Why does that shortage give sellers an incentive to raise the price?

4. Use the table to calculate the surplus at $10 and predict the direction of the price change. How would a new nearby office change demand at each price?

3 YOUR TURN

Your own words

Imagine a local cycling boom increases demand for bike repairs at every price while supply conditions stay unchanged. In 3 to 4 sentences, explain what happens at the old price, how price and quantity move toward a new equilibrium, and one incentive the price change creates for repair shops.

ANSWER KEY

Lunch Market Moves

GRADE 12 · SS24.E.4

PART 1 · READ AND MARK

Underline one flow of labor or meals and circle the payment that moves in the opposite direction. Number the shortage, equilibrium, and surplus prices in the passage 1, 2, and 3. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	In the factor market, who supplies labor, who buys it, and what payment flows in the opposite direction?	**Households supply labor to restaurants, and restaurants pay households wages.**
2	How does the city take part in the product market, and where does its payment come from?	**The city buys meals from restaurants for a public shelter. It pays with tax revenue collected from households and businesses.**
3	Use the table to calculate the shortage at $6. Why does that shortage give sellers an incentive to raise the price?	**The shortage is 40 bowls, since 80 are demanded and 40 are supplied. More buyers want bowls than sellers offer, so sellers have an incentive to raise the price.**
4	Use the table to calculate the surplus at $10 and predict the direction of the price change. How would a new nearby office change demand at each price?	**The surplus is 40 bowls, since 80 are supplied and 40 are demanded. Sellers have an incentive to lower the price. A new office would increase demand at every price.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

A cycling boom increases demand for bike repairs at every price. At the old price, customers want more repairs than shops offer, creating a shortage. As the price rises, shops offer more repair slots and some customers choose not to buy repairs. The market moves toward a higher equilibrium price and quantity, and the higher price encourages shops to extend their hours.

For the marking job, accept either labor and wages or meals and payment as opposite flows. Accept clear explanations that a demand increase, with supply unchanged, raises equilibrium price and quantity.