Fair Price Signals

How buyers and sellers respond when prices change

E.2.5 "Describe how price elasticity of supply and price elasticity of demand send signals to buyers and sellers."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline details that show buyers' choices, circle details that show sellers' ability to add goods, and number each group of details. Use your marks to explain how a higher price may affect each group.

Prices at the Weekend Fair

1. At the town's weekend fair, a higher price does more than change a number on a sign. It can signal that an item is scarce compared with how many people want it, and it gives sellers a reason to offer more. **Price elasticity** describes how strongly quantities respond to a price change. Demand is more elastic when buyers can easily switch or wait. Supply is more elastic when sellers can quickly make or bring more. If peaches become costly while plums remain cheap, some shoppers switch fruits. An orchard, however, cannot grow extra peaches by closing time.

2. The fair has several water stands, and a free refill station is beside the main path. Visitors can carry their own bottles, though some still prefer cold bottled water. Across the grounds, a shuttle takes visitors back to a distant parking lot. Most visitors cannot easily walk that route, and no other vehicle runs there during the fair. These details matter when either seller changes a price. A seller watches how many buyers leave after a price change. Buyers, in turn, weigh the higher cost against the time and effort of finding another option.

3. A poncho vendor keeps extra rain ponchos at a nearby warehouse. If prices rise on Saturday, the vendor can order more for Sunday morning. A pottery artist sells hand-painted mugs at the same fair. Each mug takes several days to finish, and no finished mugs remain in storage. A higher price can signal an opportunity to both sellers, but it cannot create stock at the same speed for each one. Buyers also read prices as clues about availability. More goods may arrive soon in one case, while the other seller's stock stays limited this weekend.

2 ANSWER WITH EVIDENCE

Use the passage

1. If one water stand raises its price, how elastic is demand for its bottled water likely to be? What does this signal to buyers and that seller?

2. If the shuttle fare rises, how elastic is demand for shuttle rides likely to be? What does this signal to riders and the shuttle seller?

3. If poncho prices rise on Saturday, how elastic is the vendor's supply by Sunday morning? What does the higher price signal to the vendor and buyers?

4. If the artist raises mug prices on Saturday, how elastic is the supply of mugs this weekend? What does the higher price signal to the artist and buyers?

3 YOUR TURN

Your own words

Choose a good or service not mentioned in the passage. Describe a realistic price increase, explain how easily buyers could switch or wait, and explain how quickly its seller could offer more. State what the price increase signals to both buyers and the seller.

ANSWER KEY

Fair Price Signals

HIGH SCHOOL · E.2.5

PART 1 · READ AND MARK

Underline details that show buyers' choices, circle details that show sellers' ability to add goods, and number each group of details. Use your marks to explain how a higher price may affect each group. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	If one water stand raises its price, how elastic is demand for its bottled water likely to be? What does this signal to buyers and that seller?	**Demand is likely elastic. Buyers can use another stand or the free refill station, so the seller risks losing sales.**
2	If the shuttle fare rises, how elastic is demand for shuttle rides likely to be? What does this signal to riders and the shuttle seller?	**Demand is likely less elastic because most riders lack another practical way to reach their cars. Riders may pay the higher fare, so the seller may lose relatively few rides.**
3	If poncho prices rise on Saturday, how elastic is the vendor's supply by Sunday morning? What does the higher price signal to the vendor and buyers?	**Supply is relatively elastic by Sunday because the vendor can bring more from the warehouse. The higher price signals an opportunity to restock, and buyers may find more ponchos available Sunday.**
4	If the artist raises mug prices on Saturday, how elastic is the supply of mugs this weekend? What does the higher price signal to the artist and buyers?	**Supply is inelastic this weekend because new mugs take days to finish. The price signals an opportunity to the artist, but buyers still face limited stock.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Suppose one bike repair shop raises its price for a same-day repair. Demand may be elastic because riders can take their bikes to another nearby shop. The shop's supply is inelastic that day if its mechanics are already fully booked. The higher price signals buyers to compare shops and signals the seller that more repair slots could be valuable, even though it cannot add them today.

Accept well-supported comparisons of responsiveness rather than requiring exact measures of elasticity. A higher price does not guarantee that sellers can increase supply immediately.