Who Sets the Price?

Compare sellers, prices, and output in three local markets

E.C.3.4 "Compare the basic characteristics of market structures, including monopoly, oligopoly, and competitive markets, and analyze how each influences pricing and output."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline how many sellers each market has, circle details about prices, and number details about how much is supplied. Use your marks to compare how the markets work.

Three Markets in One Town

1. At Saturday's farmers market, twenty growers sell similar baskets of ripe tomatoes. Buyers can compare prices in minutes, and a grower who charges much more than neighboring stalls will probably lose sales. Each seller has little power to set the market price, so a stall usually matches the going price. When customers want more tomatoes at that price, growers can bring more baskets the next week, if their harvest allows it. This competitive market does not guarantee cheap food, but competition makes it difficult for one grower to raise prices alone.

2. On the same town's commuter route, two bus companies control most scheduled trips. Each company watches the other's fares and departure times before changing its own. If one cuts fares, it may gain riders, but its rival might match the cut, shrinking both companies' revenue. If one raises fares, some riders may switch to the rival instead. With only a few major sellers, this is an oligopoly: each firm's pricing and number of trips depend partly on how competitors respond. Limited competition can support higher fares and fewer trips than a more competitive route, but that outcome is not inevitable.

3. At home, residents buy tap water from a single local utility because building a second network of pipes would be costly. This provider is a monopoly in the town's tap water market. Without oversight, a sole seller could charge a higher price and supply less water than multiple competing suppliers facing the same costs and demand. However, the town regulates water rates and requires reliable service, limiting that power. The number of sellers matters, but so do entry costs and rules. Across all three markets, the structure shapes how easily a seller can change price and how much gets supplied.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does the number of sellers affect a tomato grower's power to raise prices compared with a bus company's power?

2. If one bus company cuts fares, how might that affect its ridership and its rival's decision? How could the rival's response affect both companies?

3. Without town oversight, how might the water utility's price and output differ from those of competing suppliers facing the same costs and demand?

4. Compare one factor that affects how much is supplied in each of the three markets.

3 YOUR TURN

Your own words

A town permits either 1, 3, or 25 shops to print identical event flyers. Assume similar costs, enough equipment to meet demand, and no price controls. In one paragraph, predict how each case would affect pricing power and total flyers printed, and explain why rivals' responses matter.

ANSWER KEY

Who Sets the Price?

HIGH SCHOOL · E.C.3.4

PART 1 · READ AND MARK

Underline how many sellers each market has, circle details about prices, and number details about how much is supplied. Use your marks to compare how the markets work. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does the number of sellers affect a tomato grower's power to raise prices compared with a bus company's power?	**A grower faces many nearby sellers, so raising prices would likely cost sales. A bus company faces only one major rival, giving it more pricing power, though it must consider that rival's response.**
2	If one bus company cuts fares, how might that affect its ridership and its rival's decision? How could the rival's response affect both companies?	**The company may gain riders. Its rival might match the cut, which could shrink both companies' revenue.**
3	Without town oversight, how might the water utility's price and output differ from those of competing suppliers facing the same costs and demand?	**The utility could charge a higher price and supply less water.**
4	Compare one factor that affects how much is supplied in each of the three markets.	**Tomato growers can bring more baskets when demand rises, if harvests allow. Bus companies consider rivals' responses when setting trips. The water utility has the power to limit supply, but town service requirements restrict it.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

With one print shop, customers have no other local seller, so the shop could charge more and print fewer flyers. With three shops, each must consider whether rivals would match a price cut or attract customers after a price rise. Prices and total printing might fall between the other cases, but rival reactions could change that outcome. With twenty-five shops offering identical flyers, buyers can switch easily, limiting each shop's pricing power and likely leading to a lower price and more total flyers printed.

Accept qualified predictions rather than fixed prices or quantities. Responses should connect the number of sellers to pricing power and output, and recognize that the three-shop outcome depends on rivals' responses.