The Bread Price Puzzle

Trace how market changes shape prices and choices.

E.C.3 "Explain how prices are set in a market economy and will determine how price provides incentives to buyers and sellers. Analyze how price and non-price factors affect the demand and supply of goods and services available in the marketplace..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two changes that shift demand or supply, circle one price rule, and draw an arrow to its effect on buying or selling. Use your marks to trace why the outcome changes.

What Sets the Price of Bread?

1. At a neighborhood bread market, customers compare loaves from several bakeries. On a typical Saturday, a price of $5 per loaf brings the number customers want to buy into balance with the number bakers want to sell. If the price rises, some customers buy fewer loaves, while bakers have an incentive to bring more. A popular cooking video can increase demand at every price, pushing the market price upward if supply stays the same. A bad wheat harvest can raise flour costs and reduce supply at every price, also pushing the price upward. These price increases have different causes.

2. Suppose the city limits bread prices to $3, below the $5 price that would otherwise balance buying and selling. More customers want loaves at $3, but some bakers bring fewer because selling is less profitable. The result is a shortage, and late customers may leave empty-handed. Now imagine a rule requiring at least $7 per loaf instead. At that price, bakers want to sell more than customers want to buy, creating a surplus of unsold loaves. A ceiling below the balancing price and a floor above it change both incentives and who gets bread.

3. Competition shapes how bakeries set prices, too. With many similar bakeries, a seller who charges far more may lose customers to rivals. A bakery with a one-of-a-kind loaf has more room to choose its own posted price, but customers can still decide not to buy. Firms sometimes use administered pricing: they announce a price and keep it for a time instead of changing it after every sale. An ad about fresh ingredients may raise demand for one bakery's bread without changing its flour costs. Government enforcement of ownership and contracts helps bakers protect ovens, rent shops, and trade with suppliers.

2 ANSWER WITH EVIDENCE

Use the passage

1. If supply stays the same, how could the cooking video affect demand and the market price of bread?

2. Why could a bad wheat harvest raise bread prices even if customers' tastes do not change?

3. Why might some customers leave without bread when the city sets a $3 price ceiling?

4. How can competition limit a bakery's posted price even if its ad raises demand?

3 YOUR TURN

Your own words

Imagine several vendors rent umbrellas outside a train station. In four sentences, explain how a forecast of heavy rain, followed by a rental price ceiling below the new market price, could affect demand, vendors' incentives, and who gets an umbrella. Assume the number of umbrellas available does not change before the ceiling takes effect.

ANSWER KEY

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PART 1 · READ AND MARK

Underline two changes that shift demand or supply, circle one price rule, and draw an arrow to its effect on buying or selling. Use your marks to trace why the outcome changes. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	If supply stays the same, how could the cooking video affect demand and the market price of bread?	**The video could increase demand at every price, pushing the market price upward.**
2	Why could a bad wheat harvest raise bread prices even if customers' tastes do not change?	**The harvest raises flour costs, which reduces the supply of bread at every price and pushes the price upward.**
3	Why might some customers leave without bread when the city sets a $3 price ceiling?	**At $3, customers want more loaves while bakers bring fewer, creating a shortage.**
4	How can competition limit a bakery's posted price even if its ad raises demand?	**Customers attracted by the ad can still choose rival bakeries if that bakery charges much more.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

A forecast of heavy rain increases demand for umbrella rentals at every price. With the number of umbrellas unchanged, the market rental price would tend to rise. A ceiling below that new price gives vendors less incentive to bring additional umbrellas than a higher price would. More riders want to rent at the capped price than vendors offer, so some riders cannot get an umbrella.

Accept explanations that distinguish a demand shift from a supply shift and connect a binding price ceiling to a shortage. For the open task, accept different wording if the four sentences address the forecast, price, vendor incentives, and renters' access.