Why Prices Change

Trace inflation and market price changes.

CE.12.c "explaining the concept of inflation and the effect of supply and demand on consumer prices in a market economy;"

NAME ____________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline the sentence that tells how inflation differs from one price change, then circle the two examples of supply and demand affecting a price and number them 1 for a price rise and 2 for a price fall.

Prices in a Market Economy

1 Inflation is a general rise in prices over time. When inflation occurs, each dollar buys fewer goods and services than before. A single price increase is not always inflation. If one concert ticket costs more because a famous singer visits town, that is a change in one market. Inflation involves many prices rising across the economy, such as food, rent, transportation, and school supplies. People notice inflation when their usual budget no longer covers as much.

2 In a market economy, buyers and sellers make choices. Demand describes how much consumers are willing and able to buy at different prices. Supply describes how much producers are willing and able to sell. When demand for a product rises but supply does not rise enough, sellers may raise prices because more buyers compete for limited items. For example, a heat wave can increase demand for fans. If stores have only a few fans available, their prices may climb.

3 Prices can also fall in a particular market. Suppose several factories produce more backpacks while the number of shoppers stays about the same. The larger supply gives shoppers more choices, so sellers may lower prices to attract buyers. A price change caused by supply and demand in one market differs from inflation, which is an economy-wide pattern of rising prices over time. Changes in costs, weather, technology, and consumer tastes can shift supply or demand for many products.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why is a higher price for one concert ticket not necessarily inflation?

2. During the heat wave, what happens to the demand and supply of fans, and why might the price rise?

3. Why might backpack sellers lower prices when factories produce more backpacks and the number of shoppers stays the same?

4. How is inflation different from a price change caused by supply and demand in one market?

3 YOUR TURN

Your own words

Complete the table with three original examples. Show one market with rising demand and limited supply, one with increasing supply and steady demand, and one example of inflation affecting several kinds of purchases.

SITUATION	CHANGE IN SUPPLY OR DEMAND	EXPECTED PRICE AND WHY

Why Prices Change

PART 1 · READ AND MARK

Underline the sentence that tells how inflation differs from one price change, then circle the two examples of supply and demand affecting a price and number them 1 for a price rise and 2 for a price fall. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why is a higher price for one concert ticket not necessarily inflation?	**It is a price change in one market, caused by a famous singer visiting town. Inflation is a general rise in many prices across the economy.**
2	During the heat wave, what happens to the demand and supply of fans, and why might the price rise?	**Demand for fans rises, while stores have only a few fans available. Prices may rise because more buyers compete for limited items.**
3	Why might backpack sellers lower prices when factories produce more backpacks and the number of shoppers stays the same?	**Supply increases and shoppers have more choices. Sellers may lower prices to attract buyers.**
4	How is inflation different from a price change caused by supply and demand in one market?	**Inflation is an economy-wide pattern of rising prices over time. A supply-and-demand change affects the price in a particular market.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

SITUATION	CHANGE IN SUPPLY OR DEMAND	EXPECTED PRICE AND WHY
A new video game is released, but stores have few copies.	Demand rises while supply is limited.	The price may rise because many buyers want few copies.
Farmers harvest many more apples, and the number of shoppers stays the same.	Supply increases while demand stays steady.	The price may fall because shoppers have more choices.
Food, bus fares, and rent rise over time.	Inflation affects many prices across the economy.	Each dollar buys fewer goods and services.

Accept equivalent explanations that correctly distinguish economy-wide inflation from a change in one market. For the table, accept varied realistic products or services when the supply, demand, and expected price relationship are accurate.