Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period: \_\_\_\_
**Supply and Demand ~ The Pearl Exchange**

Pearls from the island of Bali are valued all over the world. During the 5 minute long trading session, half the class will be buyers the other half will be sellers. Your goal is to make as much surplus (profit) by negotiating a favorable price.

* The buyer must try to buy pearls as cheaply as they can; if they pay less than their maximum price then they get a consumer surplus.
* Sellers must try to sell their product for as much as they can, if they sell above the minimum price they get a seller’s surplus.

There will be four trading sessions and you can only sell/buy once per session. When you make a deal shake hands and go tell Mr. Farhoud your selling price to record on the front board. Then record the information for selling/ buying on your worksheet at your desk. Don’t tell people what your max or minimum price was until after we talk about the round. If you don’t make a sale, or buy a product that round, your maximum or minimum price becomes a negative amount!

How to calculate a buyer’s surplus:
buyer surplus (profit) = buyer’s max price – sold price

How to calculate a seller’s surplus:
seller’s surplus (profit) = sold price – seller’s minimum price

**TRADING RECORD**

**Round 1**Note: For round 1, the surplus will be equal to total because we just started!

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Buyer** | Maximum price | Price you paid | Surplus | Total |
| **Seller** | Price Sold | Minimum Price | Surplus | Total |

Total number of sellers

Total number of buyers

Equilibrium price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (average price for sold pearls)

**Round 2**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Buyer** | Maximum price | Price you paid | Surplus | Total |
| **Seller** | Price Sold | Minimum Price | Surplus | Total |

Total number of sellers

Total number of buyers

Equilibrium price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (average price for sold pearls)

That happened to the range of prices?

What happened to the equilibrium price? What are some reasons this occurred?

**Round 3**
Note: Remember, the surplus can be negative if you don’t make a trade.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Buyer** | Maximum price | Price you paid | Surplus | Total |
| **Seller** | Price Sold | Minimum Price | Surplus | Total |

Total number of sellers

Total number of buyers

Equilibrium price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (average price for sold pearls)

Explain what happened to the equilibrium price? Explain

Illustrate what occurred graphically.

**Round 4**

Note: Remember, the surplus can be negative if you don’t make a trade.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Buyer** | Maximum price | Price you paid | Surplus | Total |
| **Seller** | Price Sold | Minimum Price | Surplus | Total |

Total number of sellers

Total number of buyers

Equilibrium price = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (average price for sold pearls)

Explain what happened to the equilibrium price? Explain

Illustrate what occurred graphically.

**REVIEW QUESTIONS**

1. What was your grand total surplus? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Was it positive or negative? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. What occurred to the equilibrium price? Did it increase, decrease, or fluctuate over time? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. What sorts of strategies worked when trying to sell for a higher price?
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. What strategies worked when trying to buy at a lower price?
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. If supply is low (more buyers than sellers) what happens to the price of the pearls? Did they increase or decrease? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
7. If demand is low (more sellers than buyers) what happens to the price of the pearls? Did they increase or decrease? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_