How demand and supply influence price

Read the information about auction skills below as well as the auction instructions and rules and do the activities that follow.

**Auction skills:**
1. Make sure you know which product is up for auction.
2. Decide whether this is a product that you would want to have.
3. Decide beforehand how much you would be willing to buy the product for.
4. Don’t bid more than you are willing to pay.
5. Don’t bid for more than the amount of tokens you have.
6. Don’t try to outbid someone else just to prevent the other person from winning the bid if you are not really interested in the item.
7. Study the auction list to make sure what you would really like to bid on.

**Auction instructions:**
Hold a class auction. Before you start your auction, make money tokens. You can make tokens with the following values: R10, R20, R50, R100 and R200. Make enough tokens so that each learner has about R1000 worth of tokens. Auction the items listed in the table below. Remember that you cannot bid more for an item than the amount of tokens you have. The auction will take place in two rounds.

**Auction rules:**
1. The lot will be sold to the highest bidder.
2. Once you have won the lot, you must pay in tokens immediately.
3. You can bid on more than one item.
4. You can buy more than one item, provided you have enough tokens.
5. Once the bidding closes, the person with the highest bid must buy the product.
1. Hold a class auction as instructed and complete the auction list below as your auction progresses.

<table>
<thead>
<tr>
<th>Product to be auctioned</th>
<th>Price achieved: Round 1</th>
<th>Sold to</th>
<th>Price achieved: Round 2</th>
<th>Sold to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latest cell phone</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Lot 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My favourite CD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lot 3</td>
<td></td>
<td></td>
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<tr>
<td>A week-long holiday for one family at the coast</td>
<td></td>
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<tr>
<td>Lot 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>80Gig Apple iPod with pouch</td>
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<tr>
<td>Lot 5</td>
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<tr>
<td>MP4 player pre-loaded with hit music and three latest-release movies</td>
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</tr>
</tbody>
</table>

2. Discuss the questions below in class and answer them in your workbook.
   a) Which round of the auction achieved the highest prices for the products? Why is that?
   b) Who determined the price of the products? How did they do that?
   c) In relation to the auction, explain how the supply affected the price achieved.
   d) When was there a greater demand for the products, during the first round or the second round? Why?
   e) Explain the relationship between the price agreed to and the demand for and supply of the product.
**Suggested Solutions**

**Teacher information for the activity:**
Hold the auction in two rounds. For the first round of the auction, tell learners that there are five items of each product up for auction. Hold the auction and write down the price each product achieves. For the second round of the auction, tell learners that there is only one of each item up for auction. Again write down the price each product achieves.

<table>
<thead>
<tr>
<th>Question number</th>
<th>Possible marks</th>
<th>Solution</th>
</tr>
</thead>
</table>
| 2               | None           | Learners participate in a class auction and hold a class discussion afterwards. Some of the things to cover in the class discussion:  
a) The second round should have achieved higher prices, because there was only one item for sale, and therefore the supply of the item is low.  
b) The bidders determined the price because they only bid as much as they were prepared to pay.  
c) The higher the supply, the lower the price, and the lower the supply, the higher the price.  
d) The greater demand was during the second round, when there was only one item for sale per lot.  
e) The higher the demand and the lower the supply, the more the bidder will agree to pay for the product. The lower the demand and the higher the supply, the less the bidder will agree to pay for the product. |