

## DISCUSSION QUESTION

Name:

Instructor:

Course:

How does supply and/or demand explain the fall in oil prices in the last few months?

**PEER GROUP PROBLEM SOLVING**

Name:

Instructor:

Course:

A bar and grill can produce 6 of their trademark Big Steak Sandwiches in an hour. They can also produce 10 basic hamburgers in an hour. On this particular day, customers desire, on average, 7 Big Steak Sandwiches and 6 hamburgers per hour. Is there equilibrium? Shortage? Surplus? According to the laws of demand and supply, what needs to happen for equilibrium to occur?

**IN-CLASS EXPERIMENT / ACTIVE EXERCISE**

**Playacting:** Use five students. (Number and roles can vary based on size of class.) One student will be the owner of Joe's T-Shirt Store. Another student will be the owner of Mary's T-Shirt Store. Supply of T-shirts is fixed (to be determined by instructor). Unit costs are fixed at \$1 per t-shirt. The other three students are consumers. Each student is given a budget of \$20 (fake money). Joe and Mary compete with the consumers for their business. The objective is to determine who (Joe or Mary) makes the most profit.

## SOLUTIONS AND INSTRUCTOR NOTES

### Discussion Question

How does supply and/or demand explain the fall in oil prices in the last few months?

*Answers will vary but should include a decline in demand in the U.S., Europe, China, and India, an increase in supply due in part to increased oil production in the U.S. (i.e., oil extraction from shale in North Dakota, etc.) Saudi Arabia's refusal to reduce production and diminished price-setting power of OPEC.*

### Peer Group Problem Solving

A bar and grill can produce 6 of their trademark Big Steak Sandwiches in an hour. They can also produce 10 basic hamburgers in an hour. On this particular day, customers desire, on average, 7 Big Steak Sandwiches and 6 hamburgers per hour. Is there equilibrium? Shortage? Surplus? According to the laws of demand and supply, what needs to happen for equilibrium to occur?

*Is there equilibrium? No.*

*Shortage? Big Steak Sandwich, yes, shortage of 1. Hamburgers, yes, surplus of 4.*

*According to the laws of demand and supply, what needs to happen for equilibrium to occur? Price of sandwiches can rise and hamburger prices can fall.*

### In-Class Experiment / Active Exercise

Playacting: Use five students. (Number and roles can vary based on size of class.) One student will be the owner of Joe's T-Shirt Store. Another student will be the owner of Mary's T-Shirt Store. Supply of T-shirts is fixed (to be determined by instructor). Unit costs are fixed at \$1 per t-shirt. The other three students are consumers. Each student is given a budget of \$20 (fake money). Joe and Mary compete with the consumers for their business. The objective is to determine who (Joe or Mary) makes the most profit.

*Joe and Mary set their initial prices of t-shirts and compete with each other for the consumer. Quantity demanded will vary based on the price each charges and consumer's willingness-to-pay. Profit will be determined by total revenue (price times quantity), minus total cost (quantity times unit cost).*

*For more in-class experiment and active learning ideas, visit [www.econedactive.com](http://www.econedactive.com).*