

DISCUSSION QUESTION

Name:

Instructor:

Course:

Over 180 million roses are sold (demanded) on Valentine's Day. What are the five determinants of demand? Provide an example of how each of these determinants will affect the price and quantity of roses demanded on Valentine's Day.

PEER GROUP PROBLEM SOLVING

Name:

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California produces roughly 20% of the United States' rice crops. However, California has endured several years of drought resulting in rationing and government mandated personal water use restrictions of up to 25%. Agriculture, including rice which is used in preparing sushi, is being severely affected. If this drought continues, what would we expect to happen to the supply of rice? Given that rice is a primary ingredient in sushi, draw a supply and demand curve illustrating the effect of the drought on the market for sushi. Clearly show what happens to the price and quantity demanded for sushi.

IN-CLASS EXPERIMENT / ACTIVE EXERCISE**Clicker Question**

1. Which of the following prices is the best approximation of the most you would be willing to pay for a rose?

- a) \$3.00 or more
- b) \$2.00
- c) \$1.00
- d) \$0.50
- e) \$0.00

2. Next, assume you can buy a carnation for half the price. Now, what is the maximum price you would be willing to pay for a rose?

- a) \$3.00 or more
- b) \$2.00
- c) \$1.00
- d) \$0.50
- e) \$0.00

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

Over 180 million roses are sold (demanded) on Valentine's Day. What are the five determinants of demand? Provide an example of how each of these determinants will affect the price and quantity of roses demanded on Valentine's Day.

Examples will vary:

Tastes and Preferences: *Roses are generally preferred or seen as superior for Valentine's Day, increasing demand.*

Income: *If personal incomes rise, more roses will be demanded, other factors being constant.*

Prices of Related Goods (complements and substitutes): *If carnations (a substitute) are much cheaper (relative to the price of roses) demand for roses may decline and demand for carnations may increase. If boxed chocolate (a complement) rises in price, we may expect to see a decline in the demand for roses.*

Number of buyers: *Given that it is Valentine's Day, we would expect an increase in the number of buyers and thus an increase in demand.*

Future prices are unlikely to affect demand for roses on Valentine's Day since it is a special occasion. If individual incomes are expected to rise, demand for roses should increase. If the supply of roses is expected to fall, demand for roses should increase.

Expectations about Future Prices, Incomes, and Product Availability: *Future prices are unlikely to affect demand for roses on Valentine's Day since it is a special occasion. If individual incomes are expected to rise, demand for roses should increase. If the supply of roses is expected to fall, demand for roses should increase.*

Peer Group Problem Solving

California produces roughly 20% of the United States' rice crops. However, California has endured several years of drought resulting in rationing and government mandated personal water use restrictions of up to 25%. Agriculture, including rice which is used in preparing sushi, is being severely affected. If this drought continues, what would we expect to happen to the supply of rice? Given that rice is a primary ingredient in sushi, draw a supply and demand curve illustrating the effect of the drought on the market for sushi. Clearly show what happens to the price and quantity demanded for sushi.

We expect the supply of rice to decrease. A smaller rice harvest will shift the supply curve for sushi leftward. As a result, the price of sushi will increase and the quantity demanded will decrease. No change in the demand curve.

In-Class Experiment / Active Exercise

Clicker Question



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Question 1 illustrates willingness-to-pay.

Question 2 illustrates the effect of substitutes on demand.

For more in-class experiment and active learning ideas, visit www.econedactive.com.