PFL Academy

Teacher Guide: Chapter 14.3 — Supply and Demand in Personal Finance

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Market Analyzer Tool	L-48: Economic Systems, L-49: Scarcity

LESSON FLOW

5 min — **THE CHALLENGE**

- Read the opening questions about price changes aloud.
- Discussion: "Can you think of other examples where prices change predictably?"
- Preview that supply and demand explains virtually ALL price changes.

10 min — **CORE CONCEPTS**

- Review the 5 key terms. Use simple visual diagrams to show supply/demand curves.
- Emphasize the difference between "movement along a curve" (price change) and "shift of the curve" (other factors).
- Quick check: "If concert tickets cost $200 vs. $50, which price creates more demand?" (Law of demand)

25-30 min — **APPLY IT**

- **Part A (8 min):** Market Equilibrium. Walk through the used car table. Identify equilibrium and discuss how surpluses/shortages self-correct.
- **Part B (8 min):** Demand Shifters. Students categorize each scenario. Emphasize real-world applications (income changes, substitutes, expectations).
- **Part C (8 min):** Supply Shifters. Students categorize supply changes. Connect to recent events (supply chain issues, inflation).

10 min — **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Review Q3 (gas prices) and Q5 (personal application) for practical understanding.
- Preview Day 2 Learning Lab: Housing and labor market analysis, purchase timing strategies.

DIFFERENTIATION

Support

- Provide a graphic organizer with supply/demand curve visuals.
- Use everyday examples: "Pizza prices at lunch vs. dinner."
- Create a cheat sheet: "Income up = demand up, costs up = supply down."

Extension

- Research how the Federal Reserve's actions affect supply and demand (interest rates).
- Analyze a recent price spike (housing, used cars, gas) using supply/demand framework.
- Calculate elasticity: How sensitive is demand for different goods to price changes?

- Work through Part A as a whole-class activity.

ANSWER KEY

Part A: Market Equilibrium Analysis

1. Equilibrium at **$20,000**—quantity demanded (300) equals quantity supplied (300). Market condition: EQUILIBRIUM (no shortage or surplus).

2. At $30,000, there's a surplus of 300 cars (sellers want 400, buyers want only 100). Sellers can't sell inventory, so they lower prices. Price falls toward equilibrium as unsold inventory accumulates.

Part B: Demand Shifters

- Income increases → Demand **INCREASES (shifts right)** → Prices rise
- Price of substitute increases → Demand **INCREASES (shifts right)** → Prices rise (consumers switch to this good)
- Population decreases → Demand **DECREASES (shifts left)** → Prices fall
- Expect prices to rise → Demand **INCREASES (shifts right)** → Prices rise (buy now before increase)

Part C: Supply Shifters

- Production costs increase → Supply **DECREASES (shifts left)** → Prices rise
- Technology makes production cheaper → Supply **INCREASES (shifts right)** → Prices fall
- Government adds regulations/taxes → Supply **DECREASES (shifts left)** → Prices rise
- More businesses enter market → Supply **INCREASES (shifts right)** → Prices fall

Check Your Understanding

1. B (Quantity demanded decreases—this is the law of demand)

2. B (Quantity demanded equals quantity supplied—market clears)

3. Demand shift. Summer brings more travel/driving (vacation season), shifting demand right. Supply stays relatively constant. Higher demand with same supply = higher prices.

4. Temporary demand spike. On Valentine's Day, demand for roses shifts dramatically right (everyone wants roses that day). Supply can't instantly increase (roses take time to grow). Huge demand increase + fixed supply = 3× price increase. A week later, demand returns to normal and prices fall.

5. *Responses will vary. Look for: identification of demand/supply patterns (e.g., buy cars at end of model year, winter coats in spring, fly on Tuesdays), estimated savings from strategic timing, and reasoning based on supply/demand concepts learned.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Higher prices are always bad for consumers."	High prices signal scarcity and attract new supply. They're painful short-term but help markets self-correct. High prices during shortages prevent hoarding and ensure goods reach those who value them most.
"Supply and demand only applies to goods, not services or labor."	Supply and demand applies to EVERYTHING with a price—including wages (labor market), rent (housing market), interest rates (credit market), and stock prices (financial markets).
"Prices only change when sellers raise them."	Prices change due to shifts in supply OR demand. A seller might want to raise prices, but if demand is weak, they can't—buyers won't pay. Equilibrium is determined by both sides of the market.