Market Equilibrium/Disequilibrium Activity

For this activity the students will be working with a set of notecards. There will be three different colors of note cards, to indicate who is allowed to trade with whom. Each group will be separated into buyers and sellers, with each having a designated price.

i. Group Blue: $15 buyer, $5 seller
   ii. Group Purple: $10 buyer, $1 seller
   iii. Group Yellow: $8 buyer, $2 seller

The students will then be responsible for finding a coordinating buyer/seller of the same color notecard. The students will be told to keep their prices a secret, but to decide on an equilibrium price to buy or sell their DVD.

After this we will set a price floor at “x” dollars. The students must look at their notecards to determine if that price is above/below and if they are allowed to trade. If you are not willing to buy/sell at this price, then sit down. The students who remain are the surplus. Then we will reveal a definition of a price floor. (a government-imposed limit on how low a price can be charged for a product. For a price floor to be effective, it must be greater than the equilibrium price). Then ask for examples of price floors from the students? (minimum wage example). Then ask for a student volunteer to come to the board and draw the proper graph for a price floor (start with a basic supply/demand graph).

After this we will set a price ceiling. Again the students will look at their notecards and determine if they are willing to trade at the new price. If the students are not willing to trade, they sit down. Those who remain are the shortage. This time we will reveal a definition of a price ceiling (a government-imposed limit on how high a price can be charged on a product. For a price ceiling to be effective, it must differ from the free market price). Again we will ask the students for examples of price ceilings (rent control in NYC). Following this, another student will come to the board and draw a graph for a price ceiling.

After the large group activity has been completed, the students will have a tangible example in front of them in the form of a worksheet. Individually they will determine what is the price floor, what is the price ceiling, and how those are graphed on the worksheet. The team members will walk around the room and monitor the student performance. Easy way to remember the difference between a price floor and ceiling? You can’t go lower than the floor and higher than the ceiling (talking about prices).