Supply and Demand

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The economy of the United States is based on providing consumers with the goods and services they need and want. **Consumers** are people who buy and use goods and services. **Producers** are the people and businesses that provide these goods and services for the consumers. The goods and services made available to consumers are determined by **supply and demand.**

Supply is the number of items ready for sale. **Demand** is the number of items consumers want to purchase. If the supply of an item is greater than its demand by consumers, then there is a surplus of that item. A **surplus** causes the price of the item to decrease. When consumers' demand for the item is greater than the supply, this results in a scarcity. **Scarcity** causes the price of the item to increase.

Law of Supply and Demand

1. The price of an item will go down if the supply increases or the demand for that item decreases.
2. The price of an item will go up if the supply decreases or the demand for that item increases.

Early Examples of Supply and Demand

Jamestown Colony prospered from tobacco production. Tobacco sold for very high prices in England due to the high demand for the product. This encouraged settlers to plant more tobacco to take advantage of the high prices.

In 1849, gold was discovered in California. People from all over the world rushed to California to get rich in the gold fields. With limited supplies of goods and services available to the prospectors, the prices of items such as food, lodging, and supplies skyrocketed.

After the Civil War, small farms operated by sharecroppers and tenant farmers replaced the large plantations. With few resources, the farmers depended on credit to purchase the goods and services they needed. To repay their debts, farmers grew cotton as a cash crop. Eventually, more cotton was produced than could be sold, and the price of cotton fell drastically.

Today

The cost of energy is a concern for consumers. One form of energy is fossil fuels. Oil is a fossil fuel that is a nonrenewable resource. There is a limited supply available. As other nations build more factories, drive more cars, and buy more computers, the rising demand for oil causes an increase in oil prices. Future demand by individuals, businesses, and nations for fossil fuels will continue to cause increases in the price of fossil fuels, unless the demand can be satisfied by alternative energy sources.

Name: _____ Date: _____

Assessment

Matching

_____	1. demand	a.	supply is greater than demand
_____	2. supply	b.	number of items wanted for purchase
_____	3. consumers	c.	when demand is greater than supply
_____	4. surplus	d.	the people and businesses that provide goods and services
_____	5. producers	e.	number of items ready for sale
_____	6. scarcity	f.	people who buy and use goods and services

Fill in the Blank

1. Scarcity causes the price of the item to _____.
2. Jamestown Colony prospered from _____ production.
3. With limited supplies of goods and services available to the prospectors during the Gold Rush, the prices for food, lodging, and supplies _____.
4. Oil, a fossil fuel, is a _____ resource.

Constructed Response

Why does the price of a coat increase in the winter and decrease in the summer? Use the Law of Supply and Demand to explain your answer.

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