

Economics 100
Introduction to Economics
Spring 2011
Horwitz

Conceptual Workshop #1: How Demanders React to Price Changes

In groups of four, please discuss and respond to the following series of questions. One member should be a notetaker and use a separate sheet of paper to record your responses so that they can be turned in at the end of the exercise. Please be sure that the names of all of your group members appear on that sheet. Over the next class or two, we will discuss the concepts that help to answer all of these.

1. Imagine you are the author of a book who gets a royalty payment of 10% of the total receipts (the number sold \times the price) from the sale of the book. You get a phone call from your publisher telling you they are increasing the price of your book from \$25 to \$30. Should you be happy about this? Why or why not? What assumptions are you making about the change in quantity demanded in your answer? What elements of a good, in this case the book, will determine whether your assumption is valid?
2. Two of the most common products to offer coupons in the newspaper are breakfast cereals and household cleaners. What is it about those goods that leads their manufacturers to offer coupons? Can you name any other products that frequently have coupons that fit this explanation?
3. Why is it unusual to see coupons for products like a Harry Potter book?
4. More generally, why would sellers who are interested in maximizing their profits ever decide to lower the price of the goods they are selling? Assume that each unit the firm sells costs the same to produce no matter how many units of the good it sells.
5. Why would it not be all that great to have a monopoly in producing margarine? What kinds of goods are best to have a monopoly over? Frame your answer in terms of the answers you gave to the previous questions.
6. How is a coupon different from just lowering the price of the good? What advantage is there to the seller from giving out coupons rather than lowering the price? What is probably true of those who look for and use the coupon? What is probably true of those who buy the good without a coupon?
7. “Now I really get it” question: how does this discussion relate to why you can purchase a ticket to fly on the very same flight on the very same plane for less if you buy it a month in advance than if you buy it three days before, and if you stay over a Saturday night?
8. “Now I REALLY get it” question: how does this discussion help to explain why each of you have differing amounts of financial aid to attend SLU?