



SUPPLY *and* DEMAND

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Chapter One

The Two Bikes

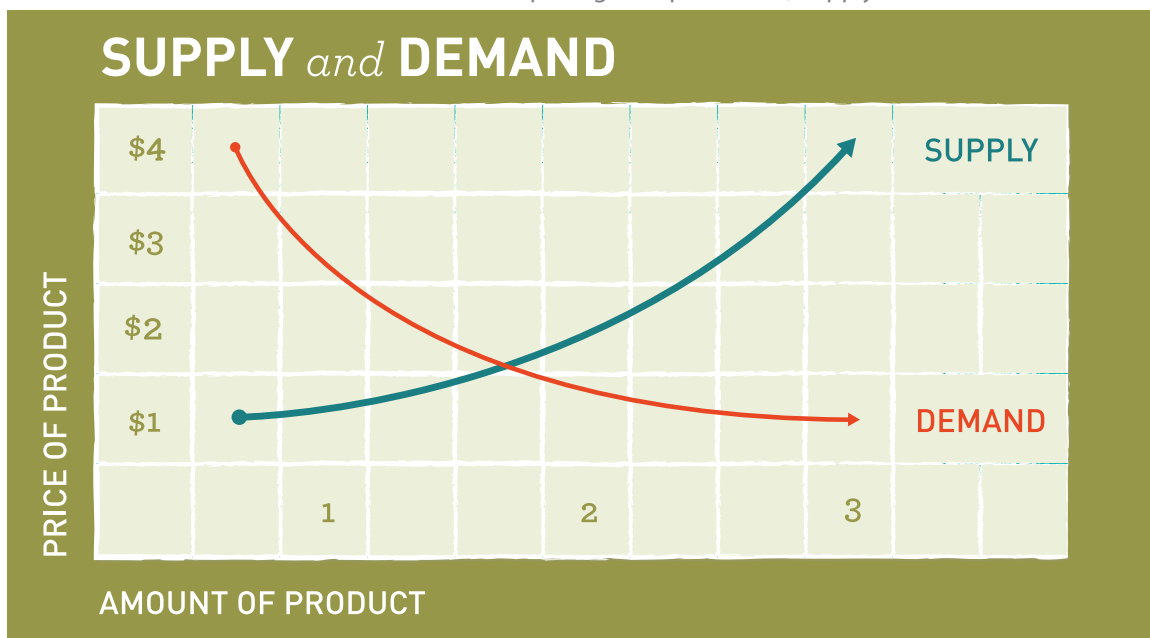


Imagine that you are shopping for a bicycle. As you walk through the store, you see two different types of bikes. They both have frames that hold together two wheels, two pedals, handlebars, and brakes. Yet, one of them is very expensive, and the other costs very little. What could be the reason for the difference?

First, you look at the **expensive** bike. It's a brand-new model, and there's only one of its kind in the store. Flames are painted on its side. It looks like it could go as fast as a rocket! This bike is very popular this year. Then, you look at the inexpensive bikes. There are many of them, and they are painted with a rainbow design. Last year, everyone wanted a rainbow bike, but now they only care about the rocket bike. However, the rainbow bike is much more **affordable**. Do you see some reasons why the prices might be different?

The prices of products depend on **supply** and **demand**. Demand means how much the customer, or **consumer**, wants a certain product. Supply means how much of that product is available. As we will see, supply and demand affect each other.

If the price goes up or down, supply and demand will follow.



Chapter Two

Supply and Demand



Supply and demand are important parts of business and the economy. Demand is the need for a product or service. If there is a higher demand for something, it generally has a higher price. This is because sellers desire to make as much money as possible. If they know that everybody wants the rocket bike, then they assume consumers might spend more for it.

The rainbow bikes were probably expensive last year, when they were in high demand. Now, however, they are no longer popular. The sellers still want people to **purchase** them, so they will probably lower the price. When consumers see this great deal, they might change their minds about purchasing the expensive bike. When demand for something is low, its price is usually low, too.

Supply works in a similar way. The sellers will try to buy as many rocket bikes as possible. Then they will try to sell them in their stores at a high price. They will not buy any more rainbow bikes, because not many consumers want them. When the price of a product goes up, the supply of that product usually goes up. When the price goes down, the supply generally goes down, as well.



Chapter Three

Turbo Raker!



Now, let's further explore supply and demand. Picture a clever girl named Akira. One autumn day, Akira's dad asked her to rake the yard. Akira didn't like raking leaves. She found her **remote-controlled** car and attached a rake to it. It worked! Akira raked the entire yard by remote control!

Akira just invented a new way to rake leaves. She named her invention Turbo Raker. Akira knew that other kids would like help with their chores. She kicked a business plan into action. She borrowed \$100 from her parents and bought 10 remote-controlled cars and 10 rakes. She then produced a supply of 10 Turbo Rakers. Each Turbo Raker cost Akira \$10 to build.

Akira told everyone about her invention. She set the price for a Turbo Raker at \$20. Akira was good at math. If just five children bought a Turbo Raker, she would be able to pay her parents back. Selling additional Turbo Rakers would earn her a **profit** of \$10 each. Profits are the monies left after covering loans, materials, and other business costs. Though the product was expensive, the high demand for it helped make the venture successful.



Chapter Four

Trouble in Leaf Land



In all businesses, there are ups and downs. For instance, **construction** began on a new steel bridge in Akira's area. Suddenly steel was in high demand, and the price for steel rose. How did this affect Akira's business? Since Akira's rakes also used steel, she had to pay \$2 more for every rake. It now cost her \$12 to build a Turbo Raker. That meant she would only make \$8 per Raker.



The second problem that many businesses face is competition. Take for example, Maximilian, a boy in Akira's neighborhood. Maximilian announced he would rake yards for just \$5. He didn't have to buy anything to get started. That's why he could work for so little. Now, if two people offer you the same product or service, but one is much cheaper, which would you choose? If the product is the same, the cheaper choice will generally be in higher demand. Everybody wanted Maximilian, of course! As a result, more people hired Maximilian.

Akira still owned five Turbo Rakers, but now they were in low demand. What do you think happened to her price? Akira had to lower it **severely**. She sold the last five for just \$5 **apiece**. On the bright side, Akira still earned \$25. This was plenty to get her started on a new invention, a machine to take out the garbage!

Conclusion

As you can see, supply and demand work in ways we can **predict**. It doesn't matter whether the products are bicycles, Turbo Rakers, groceries, or clothes. So the next time you go shopping, look at the products and see if you can tell why they cost what they do!

Glossary

affordable: able to be paid for.

apiece: each; for each one.

construction: the building of something, such as a house, road, or bridge.

consumer: someone who purchases products and services.

demand: how much people want a certain product.

expensive: costing a lot of money.

predict: to make an educated guess about what will happen in the future.

profit: amount of money left after business costs have been subtracted from money earned.

purchase: to buy something using money.

remote-controlled: controlled from a distance, often with an electronic controller.

severely: by a lot; extremely.

supply: how much of a product a seller has.