**Lesson 5: How Much Will Consumers Buy?**

**HOW MANY PRODUCTS TO PRODUCE?**

In this section, you will estimate how many products your business will produce. Students first perform a market survey to estimate consumer demand for their product and to better determine consumer preferences about the product Next students identify the productive resources needed to operate the business.

Then the class calculates the explicit costs of using these productive resources, and estimates the total cost of making the products. Armed with this information, the class can determine how |many products to produce and can estimate profits.

**Teaching Objectives For Goal 2**

**OBJECTIVE 1: Conduct a Market Survey**

**IMPORTANT CONCEPTS**

**Demand –** the number of products consumers are willing to buy at different prices.

**Demand Curve** – a graph showing the number of products consumers will buy at different prices

**Law of Demand** – the fact that consumers will buy more of a product when its price goes down, and will buy less of a product when its price goes up.

**Market Survey** – a way to find out how many of a product consumers will buy at various prices

**Price** – the amount a consumer pays to buy a good or service

**Sales Revenues** – the money a business receives from selling it products

**Specific Teaching Activities**

Explain that before production can begin, we need more information about how many of our products perspective consumers will buy. Ask students for suggestions. Explain that businesses often conduct market surveys to get information, and that their class business could also.

Show students the Market Survey Data Collection Form (Form 5-1), and explain how to use it. (Put possible prices for the product in the price column. Put prices from highest to lowest. Students ask individual consumers how many of the product they would be willing to purchase at each price. Each Data Collection Form can be used for six consumers.)

Discuss ways to contact potential customers. One possibility for getting data from other students, parents, or community members is by direct interview. Another possibility is to set up a table in a strategic location in the school, and solicit information from students who pass by. Don't forget to collect market survey data from your own students if they will purchase products.

Use the Market Survey Summary (Form 5-2) analyze your data. Compute the total number of products that would be bought at each price, and write these totals on the Survey Summary. Then plot this data in graph form, using Form 5-3. In economics, this graph is called a demand curve. It is helpful to gather other kinds of information from consumers besides price and quantity data. A class that has decided to sell candles may want to ask consumers what color, size, and style of candle they prefer. Design an additional market survey form with questions to ask consumers about your product.

**Discuss your market survey with the class using the questions below.**

**Questions to Ask Your Students**

**What is price?** (The amount a consumer pays to buy a good or service)

**How does a market survey help us?** (It tells us how many of our product consumers will buy at various prices. It also helps us learn exactly what kind of product consumers want most)

**At what price will we sell the most products?** (The lowest price!) The fewest products? (The highest price!)

**What pattern do we see in our demand graph?** (As price decreases, consumers buy more; as price increases consumers buy less. In economics, this relationship is known as the Law of Demand.)

**At what price will we make the greatest amount of sales revenues?** (The price at which the number times the price is greatest.)

**Could we make this many products in time allotted to do our business project?** (Hopefully, yes. If not, the class may choose to produce less products, and charge a higher price! Use the Market survey data to help you.)

**Is market survey data guaranteed to be accurate?** (No! It serves as a guide, but you can never be completely sure how consumers will act in the future when the product actually goes on sale.)

**NOTE: You may want to have a price or two that is unrealistically low. This will show the students that at a low price they will sell many products, but the price would be too low to cover the realistic cost of producing the products.**

**FORM 5-1**

**Market Survey Data Collection Form**

**(Be sure you know the cost of your product before you gather this information?)**

I am conducting a market survey to gather information about a product that I am producing and plan to sell. Would you please provide me with some information?

How many \_\_\_\_\_\_\_\_\_\_\_\_ would you buy for the price of \_\_\_\_\_\_\_\_\_\_\_?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Price | Class  One | Class  Two | Class  Three | Class  Four | Class  Five | Class  Six | Class  Seven | Class  Eight | Class  Nine | Total |
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**FORM 5-2**

**Market Survey Summary**

1. In the blanks below put the total number of products that the consumers would buy at each price. To compute the third column, multiply the first two columns.

|  |  |  |
| --- | --- | --- |
| **Price** | **Total Number Consumers Would Buy** | **Amount That Would Be**  **Earned (Sales Revenue)** |
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1. At what price would the company earn the most? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

At that price how many products would be sold? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What amount would be earned? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Can my company make this product in the time we have for our business project?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. If not, how many products should we make? \_\_\_\_\_\_\_\_\_\_\_\_\_

At what price should the company sell them? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What amount would our company earn? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**FORM 5-3**

**Graphing Market Survey Results**

**On the grid below, graph the results of your market survey. Use the prices and product totals that you put on the Market Survey Summary Sheet.**

**Price (Up and down)**

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**Total Number Consumers Would Buy**

**(Across the Bottom)**

1. **At what price will the company sell the most products? \_\_\_\_\_\_\_\_\_**
2. **At what price will the company sell the fewest products? \_\_\_\_\_\_\_\_**
3. **What pattern do you see on the graph? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**
4. **Where did the lines intersect? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

The **equilibrium price** (also known as the **market clearing price**) is the point on the graph where the consumers are willing to pay the price that the producer is willing to sell the product. Would this be a good price to charge for your product? \_\_\_\_\_\_\_\_

Explain your answer.