#### 1 – Applied Economics

**Learning Objectives**: 1 and 2

**Purpose:** To demonstrate the practical impact of key economic concepts on small businesses.

**Background:** Supply, demand, price elasticity, and competitive categories can seem rather abstract to many students. This exercise is designed to make the concepts specific and concrete by applying them to a hypothetical small business.

**Relationship to Text:**

Demand and Supply – Learning Objective 1

 Types of Competition – Learning Objective 2

**Exercise:** Read the scenario and the questions outlined below. Create a Google doc and answer each of the questions. Be prepared to discuss your answers in class. You will print and submit your answers.

### Scenario: You run a small gift shop in the main shopping district of a desert resort town outside Los Angeles. Your key source of revenue is turquoise and silver jewelry, handcrafted by a large Indian tribe in the local area. The tribe also supplies very similar pieces to many of the other shops in the business district. You just heard that the tribe is planning to open a visitor’s center at one of the local natural attractions that they manage. They are sure to sell many similar pieces, at a significantly lower price than you. How should you respond, from both the supply side and the demand side? Clarify your assumptions as you answer each of the questions below.

* How do the characteristics of the town impact your business?
* Which category of competition does your gift shop compete in (monopoly, oligopoly, monopolistic competition, or pure competition)? Why?
* How will the visitor’s center affect your business? Why?
* Should you change your prices? Why? How?
* Should you take other steps to increase demand for the jewelry in your store? If so, what steps? Why?

#### 2 – Supply and Demand

**Learning Objective:** 1

**Purpose:** To demonstrate how macroeconomic concepts are integral to our daily lives.

**Background:** Often without realizing it, many students understand and apply the concepts of supply, demand, and substitute products. This quick, discussion-based exercise is designed to demonstrate that these concepts are directly relevant to your lives and completely consistent with your intuition and common sense.

**Relationship to Text:** Demand and Supply – Learning Objective 1

**Exercise:** Read the scenario and the questions outlined below. Create a Google doc and answer each of the questions. Be prepared to discuss your answers in class. You will print and submit your answers.

**Scenario:** The price of coffee in all of its forms (from prepared drinks at Starbucks to whole beans at the grocery store) has suddenly doubled. What will you do? How (if at all) will your coffee-drinking habits change? What factors will influence you?

Considerthe influence of the following factors:

* Why do you drink coffee? For the taste? To socialize? For the caffeine?
* What portion of your discretionary income do you currently spend on coffee? How would that change with the price increase?
* How would your friends/families influence them?
* Are appealing substitutes (e.g., tea, soda) easily available?
* Would timing of the price increase change your responses (e.g., final exam week versus summer vacation)?