

# Market and price formation

## Worksheet 3A

### Exercises

1. Supply and demand I

a. If the SBB raises ticket prices, how is demand affected?

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b. If the price of bread decreases, how is supply and demand affected?

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### Transfer tasks

2. Supply and demand II

You happen to know already in summer that the approaching winter will be very cold, and that war will break out in Saudi Arabia. Should your parents buy heating oil now, in summer, or wait a while longer? In your answer, use the terms 'supply' and 'demand'.

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3. Reservation prices

Isabelle and Sandro are keen to participate in an organised run taking place in their home town. The website gives the price for entering the event as 20 francs. Isabelle is disappointed: 'Why should I pay to go jogging when I can do it for free?' Sandro, on the other hand, would be prepared to pay as much as 30 francs to participate.

a. What are the reservation prices for Isabelle and Sandro?

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b. Replace the term 'reservation price' with another which is just as applicable.

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**Further transfer tasks**

4. The housing market

Your friend Joanna will begin her studies in Zurich in two months' time, and is urgently looking for an apartment. She's desperate: 'I'm forever travelling to Zurich and standing in queues to see apartments – which usually turn out to be not that great anyway.'



A queue of people seeking accommodation in Zurich in March 2014.  
Photo: Keystone / Walter Bieri

Other friends have also mentioned that it's difficult to find reasonably priced accommodation in Zurich.

a. What is the situation on the housing market where you live, or in the nearest city? Discuss your experiences.

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- b. Fill in the gaps by selecting some of these terms:  
supply, demand, increases slowly, rises rapidly, less rapidly, faster, rise, fall

Higher prosperity in a region draws people to it. This affects the housing market in that region. This, in turn, influences \_\_\_\_\_. At the same time, the amount of land available for building projects diminishes, and it takes a long time before new apartments can be built. This influences \_\_\_\_\_. Demand \_\_\_\_\_ and supply \_\_\_\_\_. Because supply reacts \_\_\_\_\_ than demand, prices \_\_\_\_\_ significantly.

- c. The basic reason behind the queues of people waiting to view apartments is simply that everyone need a roof over their heads, and that many people are prepared to make a considerable effort to find the right apartment. However, there is also a second reason: in apartment blocks with long-term tenants, rents are sometimes significantly lower than the market rate. Explain to a colleague what this second reason has to do with queues to see apartments. As previously, use the terms 'supply' and 'demand'.

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5. The grey market<sup>1</sup> for concert tickets  
Megan Roth really wants to attend the concert of British singer Adele. Unfortunately, she's been unable to buy tickets. She tries her luck on ricardo.ch; a number of tickets are on offer at prices between 400 and 1,200 francs.

- a. Have you ever bought tickets for music concerts or sports events that were sold out from unofficial sellers?  
Discuss your experiences.

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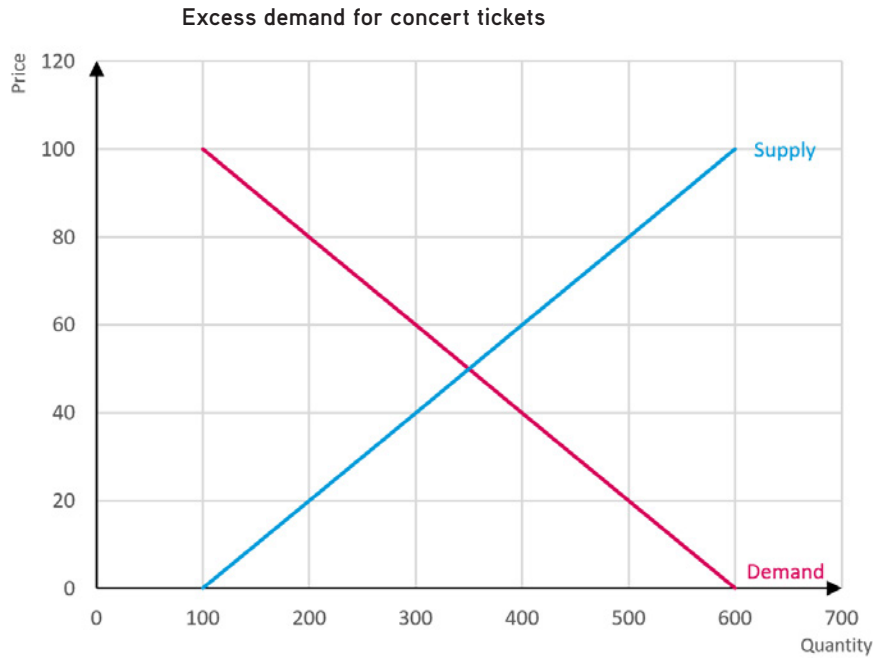
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<sup>1</sup> In Switzerland, since reselling tickets is generally not prohibited, there exists what is termed a 'grey' and not a 'black' market.

- b. A grey market – i.e. second-hand tickets on offer at inflated prices – sprang up immediately for the Adele concert. This is because the asking price is considerably below the equilibrium price; in this sense, the tickets are ‘too cheap’, i.e. many fans are prepared to pay more. In the following chart, show excess demand at a price of 20 francs per ticket and determine the supply as well as the demand quantity. By how much does the number of tickets in demand exceed the number of tickets in supply?




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- c. If lots of fans are prepared to pay a higher price, why doesn't the concert organiser simply raise the official price?

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