

SECTION

7

PRICE



PRICE ANALYSIS AND PREDICTION IN THE MODERN ECONOMY

Price and Equilibrium Analysis

INTRODUCTION

In this section you will learn about price and the factors which affect it. Price is the cost the buyer pays to own an item. Prices play an important part in an economy.

By the end of this section, you should be able to:

- Describe price in the economy.
- Discuss the factors that affect pricing in the economy.

KEY IDEAS

- Price is the amount of money that a buyer pays to a seller in exchange for goods and services.
- The interaction between buyers (demand) and sellers (supply) in the market determines the market price for a commodity.
- Factors that affect pricing in the economy include scarcity, durability, and usefulness.

MEANING OF PRICE

To understand what an important influence price has on buyers and sellers, read the following paragraph and complete the activity:

A local baker made a biscuit that was very popular in the community. The baker sold each biscuit for Gh¢2. The baker sold every biscuit made each day and still people wanted more. He was making a good profit from selling the biscuits.

Activity 7.1

Refer to the paragraph above on the local baker, and answer the following questions

1. Describe two ways the baker could make more profit each day?
2. What might happen to the baker's sales if another shop started selling a similar biscuit for Gh¢1? Explain your answer.
3. What could the baker do to keep sales at the same level?

Discuss your responses with a friend.

From Activity 7.1, you noticed how price can change the behaviour of both producers, and consumers.

At higher prices consumers would buy fewer biscuits from the baker. At lower prices they would buy more biscuits, but from the shop with lower prices. As you can see, the decision making of consumers has an important part to play in prices; a less expensive price somewhere else is more attractive; if the producer makes the price too high then consumers will not buy or look for the less expensive option.

Price therefore plays a key role in every economy as it determines how buyers and sellers make their decisions on how much of a commodity to buy and sell.



Price tags on varieties of bags of rice which impact consumer choice

Figure 7.3 Price tags can influence consumer behaviour

In a free market system (where prices are not controlled by government), prices are determined by the interaction between buyers (demand) and sellers (supply).

Activity 7.2

This activity is to help you understand how price affects your purchasing decisions.

1. Materials Needed:
 - a. Paper and pen/pencil
 - b. Internet access or shoe store catalogues
2. Set a Budget:
 - a. Set a budget for buying a pair of shoes (e.g., Gh¢300).
 - b. Research: search online or use catalogues to find three different pairs of shoes you like within your budget.
3. Comparison:

Compare the three pairs of shoes in a table based on:

 - a. Price
 - b. Quality (finish and material)
 - c. Style (design, colour)
 - d. Brand reputation
4. Decision-Making:
 - a. Decide which pair to buy based on your comparison.
 - b. Write a short paragraph explaining your choice and what factors influenced your decision; like price, quality, and personal preference.

FACTORS THAT AFFECT PRICING IN THE ECONOMY

The price of a commodity may change due to factors such as scarcity, durability, and usefulness. Understanding these factors helps consumers and businesses to make decisions about prices, purchasing and resource allocation in an economy.

- **Scarcity:** refers to the limited availability of a particular good or service relative to the demand for it. When something is scarce, it tends to be more valuable because people are willing to pay more to obtain it. The basic economic principle of supply and demand comes into play here: when the supply of a product is limited, but demand is high, prices tend to rise. Conversely, when supply exceeds demand, prices typically fall. For example, rare gemstones like diamonds are priced higher due to their scarcity compared to drinking water.
- **Durability:** refers to how long a good can last, look like new and perform the same purpose. More durable goods often have higher prices because consumers can use them for a longer period, spreading the higher cost of buying them over time. Manufacturers may also invest more in producing durable goods, which can lead to higher production costs and, consequently, higher prices. Durable goods may

keep their value better in the resale market, further contributing to their higher prices. For example, high-quality furniture made from solid wood tends to be more expensive than furniture made from cheaper materials because it lasts longer and retains its original finish.

- **Usefulness:** refers to the degree to which a good or service satisfies consumer needs and wants. The more useful a product is seen to be, the higher its demand tends to be, which can drive prices up. Products that offer unique features, solve specific problems, or provide significant benefits to consumers are often priced higher because of their usefulness. Conversely, goods with limited usefulness or those that are easily replaceable may have lower prices. For example, smartphones with advanced features and capabilities are high price whereas phones with call and text features only are lower price.

Activity 7.3

This activity will help you understand the concept of scarcity and how it affects price related decision-making. Your teacher will put you into groups of between 8 and 10.

One person in the group will be the seller, the others are buyers.

1. Set Up:

- Give each buyer a set amount of play money (e.g., Gh¢30).
- Display some small items (or pictures of them) available for purchase but make sure there are fewer items than the number of students (e.g., 10 students and only 7 items). Do not price the items.

2. Shopping:

- Allow buyers to “shop” for the items using their play money.
- Buyers must decide which items to buy and how much they are willing to pay.
- The seller decides on who buys the item based on the offers made by the buyers.

3. Discussion:

- After the shopping activity, discuss the following questions:
- Which items were most popular and why?
- How did scarcity affect the prices of the items?
- Did anyone run out of money before getting what they wanted?
- How did buyers decide what to buy?

4. Reflection:

- Write a short paragraph about what you learned about scarcity and how it influenced your decisions.

Activity 7.4

This activity will help you understand the concept of durability and how it affects price related decision-making. Durability relates to how long a good will last.

Choose one option from the following list: writing pens, smartphones, footwear, backpacks.

1. You need to research or get two different items which have a different durability from your chosen option – for example get a plastic pen and metal pen. Research on the Internet might help you identify items from the other categories. Look for well-known branded items like Apple iPhone, Nike trainers and Patagonia backpacks, and lesser known or in-house brands to compare them with.
2. Examine both items or read the descriptions relating to them based on things like durability, build quality, materials used in manufacture, expected life span and note down these facts.
3. Considering price and the information collected in three (3) decide which item you would choose.
4. Explain how durability influenced your decisions and if any other factors were important.

Activity 7.5

This activity will help you understand the concept of usefulness and how it affects price related decision-making.

Here are five products that are all very useful for a Senior High School student

1. Smartphone:
 - Essential for communication, social media, and schoolwork.
 - Popular brands include Apple, Samsung, and Google.
2. Laptop:
 - Useful for school assignments, research, and entertainment.
 - Brands like Dell, HP, and MacBook are highly recommended.
3. Backpack:
 - Ideal for carrying books, a laptop, and other essentials.
 - Durable options include Patagonia, North Face, and Herschel.
4. Wireless Earbuds:
 - Great for listening to music, podcasts, and taking calls on the go.
 - Options like Apple Air Pods, Samsung Galaxy Buds, and Jabra Elite are popular.
5. Reusable Water Bottle:

- Encourages hydration and is environmentally friendly.
- Brands like Hydro Flask, Nalgene, and S'well offer durable choices.

Read through the products again, carefully.

- 1.** Rank the products in order of usefulness to you, most useful is rank 5, least useful rank 1. (decision making)
- 2.** Give reasons for your rankings – these will be based on the usefulness you place on each.
- 3.** Now rank them in order of price, most expensive is rank 5, least expensive rank 1 (decision making). Now compare your price rankings with usefulness. Analyse your findings and suggest reasons for differences and similarities. Would you change your usefulness rankings based on the price?
- 4.** Compare your rankings with your friends. Are they the same as yours? Discuss why individuals have different rankings.

REVIEW QUESTIONS

1. Define the concept of price.
2. Explain the effect on an economy of high demand, limited supply and rising prices.
3. Explain the effect on an economy of low demand, high supply and falling prices.
4. Describe how scarcity, durability and usefulness affect the price of goods

ANSWERS TO REVIEW QUESTIONS

- 1. Concept of Price:** Price is the amount of money expected, required, or given in exchange for goods or services. It reflects the value that buyers are willing to pay, and sellers are willing to accept.
- 2. When there is high demand and limited supply, prices tend to rise.** This can lead to increased production as businesses seek to capitalise on higher prices and profits. As production ramps up, it can contribute to economic growth by creating jobs, increasing incomes, and boosting overall economic activity.
- 3. When there is low demand and high supply, prices tend to fall.** This can lead to reduced production as businesses may not find it profitable to produce goods that are not selling well. Consequently, this can result in an economic slowdown, as lower production levels can lead to job cuts, reduced incomes, and decreased overall economic activity.
- 4.**

Scarcity: Scarcity refers to limited resources in supply relative to the demand for the goods. For example, staple food like yam can be scarce due to climatic change which leads to a rise in the price of yam.

Durability: Goods that last for a long time attract higher prices. For instance, a pair of high-quality shoes might cost more than a cheaper pair of shoes that are less durable and more likely to wear out quickly.

Usefulness: Usefulness refers to how necessary a product is for meeting a consumer's needs or wants. Products that are more useful or necessary are generally high in demand, which drives up the prices. For example, a smartphone is generally more expensive than a basic cell phone because it has a higher demand.

EXTENDED READING:

1. Find out about the many different types of price by following this link:
What Is a Price? - Back to Basics - Finance & Development, December 2013 ([imf.org](https://www.imf.org))
2. Find out more about the relationship between supply, demand and prices by following this link:
https://www.youtube.com/watch?v=720uyg0Dd_M

GLOSSARY

- **Market price:** The current price of a good or service in a market that is determined by the interaction of demand and supply.
- **Scarce:** This means something is short in supply and not enough to meet demand or needs.
- **Government:** The state or public sector of the economy that focuses on the macroeconomic variables.
- **Free market:** A free market is an economic system where prices for goods and services are determined by open competition between privately owned businesses, without significant government intervention. In a free market, supply and demand dictate the prices, and transactions are based on voluntary exchange between buyers and sellers.

ACKNOWLEDGEMENTS



Ghana Education
Service (GES)



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