

Activity – The Market for Thingamajigs: Price Gouging?

Introduction:

Understanding how markets work and the role of prices within markets is an important key to being able to explain and predict economic behavior. Prices in open markets adjust to address changing conditions of scarcity. Price controls prevent the transmission of information that allows consumers and producers to adjust their choices.

Standard 8: The Price System

Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

- High prices for a good or service provide incentives for buyers to purchase less of that good or service and for producers to make or sell more of it.
- Lower prices for a good or service provide incentives for buyers to purchase more of that good or service and for producers to make or sell less of it

Lesson Description:

This lesson simulates a market for “thingamajigs” before and after a natural disaster like a hurricane, and with and without government-imposed price controls. Students, acting as buyers and sellers, will experience the ability of markets to adjust to the increased scarcity caused by the disaster, and how price controls confound those adjustments, resulting in shortages.

Time Required: 1-2 class periods

Materials:

- High and low buyer cards (64 each, 2 colors)
- Thingamajig cards (70 of color 1 and 20 of color 2))
- Seller role cards – 6
- Seller role cards – “How to Get More” – 6 (different color than regular role cards)
 - (Fill in “cost” of getting more before starting the activity)
- Seller transaction record – 6 copies
- Buyer transaction record – 1 per student – 6
- Tally Sheet
- Candy or other prizes to be purchased with “profits”

Preparation:

Make 64 low buyer cards and 64 high buyer cards according to the following distribution.

Buyer Cards Low Value		Buyer Cards High Value	
Buy Value	No.	Buyer Value	No.
\$35	4	\$52	4
\$37	4	\$55	4
\$39	4	\$58	4
\$41	4	\$61	4

\$43	8	\$64	8
\$45	8	\$67	8
\$47	12	\$70	12
\$49	12	\$73	12
\$51	8	\$76	8

Procedure:

1. Explain to students that they are going to take part in a market simulation. Read the handout, “How To Play *The Market for Thingamajigs*.” Read aloud, or have students read silently and then review the procedures and answer student questions.
2. Designate one student (or a classroom aide) to oversee the distribution of the buyer cards and to collect the thingamajigs and record the transactions on the tally sheet. Spread the buyer cards, face down, on a table. When buyers exchange cards, they should put their “used” card face down on the table and select another card at random.
3. Clear the center of the room, and set up 6 “stores” along one side to create a marketplace.
4. Select 6 sellers and seat them in their “stores” along the edge of the class. (Leave enough room between the desks for buyers who will be coming into the stores.) Give each seller a seller role card, transaction record, and 10 Thingamajig cards. (Don’t announce how many are given to each seller.)
5. Give a buyer transaction record and one (low) buyer card to each of the remaining students. Emphasize that the **buyers** are responsible for reporting each transaction.

Make sure both buyers and sellers understand how to calculate “profit” on their score sheets. Announce an incentive - that students will be able to spend their “profits” on candy at the end of the game. (You may also want to add a prize for the seller and 2 buyers who make the most profit.)

Encourage students to make as many deals as they can in the time permitted. Explain that it is permissible to buy above the value (which will be a “loss” on the transaction record) to get a new card. In order to encourage participation explain to students that if they make no transactions in a round they must count the amount on their card as a loss at the end of the round.

6. Explain that you will conduct a number of rounds of trading sessions of approximately the same length. To speed up the profit calculations, ask students to make all transactions in \$1 increments.
7. Open round 1. Monitor the market and **end the round before the sellers have time to out** of their cards. (*Expect some confusion, especially if students have not played market games before. Also expect that they will sort out the process and transactions will be made. You may wish to play the first round as practice, and “start over” after it appears that most students have figured out their roles.*)

8. Give students time to figure their net losses and gains — their “profit.” Display the transaction record and tally the total number of thingamajigs sold.
9. Distribute the thingamajig cards so that each seller again has 10 to start the round.
10. Decide whether to play another round with low buyer values or to switch to high buyer values. *(If students are familiar with market games or if you played a practice round before the first round, there is no need to play an additional low round.)* If you are switching to high buyer values, simply collect all the low buyer cards from round 1 and hand out high cards without announcing the change. Students will simply assume that there are different cards for each round.
11. Open the market for the next round. *(Expect buyers to be willing to pay more and sellers to quickly figure out that they can sell for higher prices. Sellers will sell out quickly and the round will probably be shorter than round 1, but in any case, don't let it go longer.)*
12. End the round; allow time for profit calculations, and then display the tally sheet. Discuss:
 - What was different in this round?
 - How might we explain this difference? Why might buyers have higher value for thingamajigs? *After soliciting answers, announce that the town is in the path of a hurricane. What products might “thingamajigs” be?*
 - What happened to the price? Why? What happened to sellers' profits? To buyers' “profit”? *(Emphasize that based on buyers' profit, it would be hard to argue that they've been victimized by the higher prices.)*
 - Why did the stores sell out so quickly? *Use this discussion to prompt the sellers' request to get more thingamajigs. Remind them that there is a prize for the seller with the most profit.*
13. Announce that in the next round, sellers will be able to replenish their stock and get more thingamajigs if they sell out. Redistribute the thingamajig cards so that each seller again has 10. Distribute new seller role cards (different color) and explain the procedures for getting more thingamajigs (different color). *A variety of methods is possible – anything that imposes a significant cost on the sellers – hopping around the room, filling out an extended order form, etc. Make it so that the high cost is repeated for additional small numbers of thingamajigs: hopping around the room for each additional card, filling out the extend order form for 3 additional cards, for example.*
14. Open the round and keep track of the time. Do not let the round run any longer than the previous round.
15. End the round and have students calculate their profits. Display the tally and point out the increased number of transactions. Quickly elicit comments on the prices – *expect that they have risen.* Don't spend much time; simply establish the higher prices and move to the next round.
16. Redistribute the thingamajig cards (10 per seller, original color). Return the extra thingamajig cards to the “warehouse.” Announce that in response to citizen complaints, the city council has enacted an anti-price-gouging law and that prices for thingamajigs will be

held to the pre-hurricane average of \$42. Sellers charging more will have their stores seized and will be out of the game. Quickly open the round, and let it go as long as the previous round.

17. End the round and the game and let students calculate total profits. Determine the winning seller and two winning buyers before debriefing and give out prizes. Announce that all students may use their transaction record “profits” to buy candy at the end of the period and announce the price for candy.

18. Debrief:

Debriefing Questions:

1. Ask the winning seller and winning buyers to explain their strategies in the market.
2. What did the high buyer cards signify? Why did the buyers’ values change?
3. Why did the sellers sell out when the hurricane hit? What happened to the sellers’ profits when the hurricane hit?
4. Were buyers helped or hurt by the higher post-hurricane prices? Explain.
5. How did sellers get more thingamajigs? What happened to their cost? Why?
6. What impact did the price control have on the market? On buyers? On sellers?
7. What do you think would have happened in the market after the hurricane passed and the area recovered? How would buyers’ and sellers’ behavior change?

How to Play *The Market for Thingamajigs*

1. Players' goal in the activity is to make as much **profit** as they can over the course of the game.
2. **Buyers:** Each buyer will have only one buyer card at a time. The card will allow you to buy **ONE** thingamajig and will tell you how much you value it. To make a "profit," buy at a price lower than the price shown on your card. If you buy at a higher price, you suffer a loss.

DO NOT REVEAL THE PRICE.

Record the buyer card price on your student score sheet.

When the round starts, try to buy below your buyer-card price – *the lower, the better*. (You *may* buy at a price higher than that on your buyer card, but note that this will reduce your "profit" for the round.)

When you make a purchase, record the **transaction price** on your score sheet. Then, turn in the buyer card and get another buyer card from the buyer pile.

3. **Sellers:** At the beginning of each round, each seller will be given an inventory of Thingamajigs and a role card with the cost per thingamajig. To make profit, sell at a price higher than the cost. If you sell at a lower price, you suffer a loss.

DO NOT REVEAL THE PRICE.

Record the seller card price on your student score sheet.

4. When the round opens, all stores are open to all buyers. When a buyer and seller agree on a price, they record the transaction on their transaction records, and the seller gives the Thingamajig to the buyer. **The BUYER must then report the transaction by turning in the Thingamajig card to the person keeping the Market Tally in the front of the room.** The buyer may then exchange his buyer card for another and try to make another purchase.

Remember – the BUYER is responsible for reporting the transaction.

4. When the teacher says "Start," sellers and buyers are free to move around the room and to make transactions with one another. Any seller may talk with any buyer.
5. Both buyers and sellers are free to make as many transactions as they want in a round. For tallying purposes, please make all transactions in \$1 increments. Buyers, remember to turn in your Thingamajig card to the tally keeper and get a new buyer card after each transaction.
6. During the game, keep track of your progress on the student score sheet. Compute your gains and losses by taking the difference between the price on your buyer or seller card and the price of the transaction.

Copy on colored paper – 2 colors. 70 cards color #1 and 20 cards color #2

You just received your usual monthly order of thingamajigs and have 10 on the shelves.

Your cost = \$40 per thingamajig

Seller Role Card

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Transaction Tally

Seller							
Round	1	2	3	4	5	6	Total Sold
1							
2							
3							
4							
5							
6							

Low-Value Buyer Cards:

BUYER
Purchase 1



Value to You:
\$35.00

BUYER
Purchase 1



Value to You:
\$35.00

BUYER
Purchase 1



Value to You:
\$35.00

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Value to You:
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