Trading pit exercise

The point of this exercise is to reinforce the idea that demand and supply curves slope downwards and upwards respectively. This shows that price in a real market will tend to settle at an equilibrium and that at that equilibrium, there will be some potential buyers and sellers who are excluded from the market because their willingness to pay is too low or their costs of production are too high.

Activity 1 From a pack of playing cards, remove and set aside the following cards (SPADE 10, 8, 6, 4, 2 and HEART 10, 8, 6, 4, 2). If groups are large you might need to use Clubs and Diamonds so that the same game can run simultaneously.

Divide your class into equal groups. Hand each group a series of the playing cards. One group gets the 5 SPADE cards (BLACK) and the other group gets the 5 HEART cards (RED). The BLACK group are the buyers and the numbers represent the price they are willing and able to pay. The RED groups are the sellers and the numbers represent the price they are willing and able to sell.

Ask the groups to share their numbers with the other members of their own colour group and ask them to build a market demand curve (BLACK) and a market supply curve (RED) on paper or a mini-whiteboard.

If this seems to be creating problems, give them a hint: "If the price is £10, how many units would be available to sell? Or would people be prepared to buy?" (depending on which group).

Once the curves have been built, shuffle the cards and redistribute them amongst the group (face down). The numbers in circulation are still the same but they are now in different hands.

Activity 2 Ask the students to move all furniture to the back of the class to create a trading pit in the open floor. Have the buyers line up against the sellers. It is important that the buyers and sellers do not reveal their actual information to each other during the trading period. Sellers cannot sell for less than their cost price. Buyers cannot buy for more than they are willing and able (the numbers on their cards).

Give the students 2 minutes to walk around and try to trade with each other. The winners are the buyers who save the most money and the sellers who less for the most profit.

When buyers and sellers have traded, it is essential to ratify their deal to make sure no one is selling for a loss or paying over the odds. Write down the different prices that the deals go for and take an average of them as a marker of each trading cycle.

Repeat the trading cycle several times (4–6) and every time show the students what the average buying/selling price was. In theory at least, the price should begin to settle at around £6.

Plenary

What did we recreate there? Imagine that this was the coffee market, with lots of buyers and lots of sellers. We settled on a price. At that price, however, some people won't have been able to buy (because of not enough money) and some people won't have been able to sell (because the costs are too high). Coffee will go to the people that can afford it and be sold by the people who minimise their costs. If that price now increased, what would that tell us?