

Name: _____

Team: _____

Voluntary Exchange Activity

The Pearl Exchange

WARNING: Many students complain that their teachers don't do enough hands-on activities. Many teachers complain that hands-on activities are a waste of time because the students slack off. I promise to create fun and meaningful activities, if you promise to actively participate and stay focused. **NO ANCHORS!**



Objectives: During this activity you will...

- practice negotiation skills to determine the price of a good
- make predictions regarding changes in a pearl market
- demonstrate active participation and cooperative learning skills

Scenario:

Pearls from the island of Bali are valued all over the world. Buyers and sellers of these pearls meet weekly at the Pearl Exchange, located in this room. During the 5 minute long trading sessions, half the class will be buyers and the other half will be sellers. Your goal is to make as much surplus as you can by negotiating a favorable **price**.

- **Buyers** (consumers) must try to buy the pearls as cheaply as they can. If they pay less than their maximum price, they make a consumer's surplus.



- **Sellers** (suppliers) must try to sell the pearls for as much as they can. If they sell above their minimum price, they make a producer's surplus.

There will be four trading sessions. In each session, you can only buy or sell **ONCE**. When you make a deal, shake hands and come to the teacher to record your negotiated price. Then go back to your seat and record your surplus in the table below. If you do not make a sale or purchase, you take the entire minimum or maximum price for a loss. Are you the best negotiator in the class? Let's find out. Good Luck!

Round	Buying or Selling	Max. Buying or Min. Selling Price	Negotiated Price	Surplus (or Loss)
Example	Buying	\$500	\$200	
1				
2				
3				
4				
Total:				

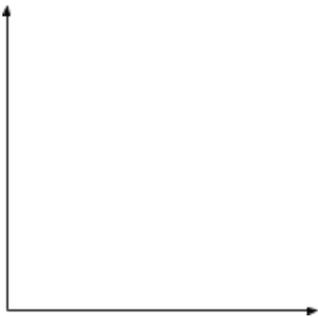
Name: _____

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(See questions on back)

Round 3: Change- Mysterious virus kills many Oysters

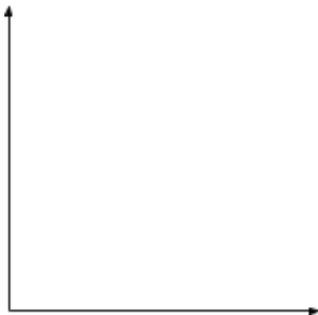
1. What will happen to demand or supply of pearls?
2. Predict what will happen to price and quantity. Why will this happen?
3. If the price stays at the original Eq, which would be greater? QD or QS?
4. What is this called in Economics?
5. What role did competition play? Who competed? How did that affect price?
6. Use economic analysis to show what happened.



1. Before Change
2. Change
 - Supply or demand first?
 - Which shifter?
 - Increase or decrease?
3. After Change
 - Price? Quantity?

Round 4: Change- Decrease in Prices of Diamonds (a substitute)

7. What will happen to demand or supply of pearls?
8. Predict what will happen to price and quantity. Why will this happen?
9. If the price stays at the original Eq, which would be greater? QD or QS?
10. What is this called in Economics?
11. What role did competition play? Who competed? How did that affect price?
12. Use economic analysis to show what happened.



1. Before Change
2. Change
 - Supply or demand first?
 - Which shifter?
 - Increase or decrease?
3. After Change
 - Price? Quantity?

Conclusions (Increase or Decrease)

13. If the demand for a product goes up, what will happen to its price and quantity?
14. If the demand goes down for a product, what will happen to the price and quantity?