



Markets, Consumers/Producers, and Voluntary Exchange

Objective: In this activity, students will understand the role of consumers and producers in markets, and the mutual benefits of voluntary exchange.

Procedure:

1. On two separate index cards, write down \$100 and \$300, respectively.
2. Ask for two volunteers to come to the front of the class.
3. Tell these volunteers that they will be negotiating the sale of a bicycle. One student will play the role of producer, and one student will play the role of consumer. *At this point, pause and discuss with the class the idea of negotiation, negotiation techniques, and how they might consider interacting in this exchange.*
4. After each student feels prepared to negotiate, tell the class that you are going to reveal to the producer the **minimum amount they are willing to accept for the bike** (\$100). Next, tell them that you are going to reveal to the consumer the **maximum amount they are willing to spend on the bike** (\$300).
5. At this point, show the producer the \$100 index card. Reveal this to the class as well, so they know. **Do not let the consumer know.** After that, show the consumer the \$300 index card. Again, reveal this to the class as well. **Do not let the producer know.**
6. Once both students are ready, tell them to negotiate the exchange of the bike. Once they do, have them shake hands and return to their seats.

Discussion Questions:

1. Who was the best negotiator?
2. What was the minimum the producer was willing to accept?
3. What was the maximum the consumer was willing to pay?
4. Who "won"?

Model Answers:

1. Depends. But provided that they mutually agreed to the exchange, they are both probably did reasonably well.
2. \$100.
3. \$300.
4. Students will very quickly answer with whomever negotiated the best deal based on their minimum or maximum. For example, if the buyer was willing to spend \$300, and the negotiated price was \$290, students will quickly assume that the producer won, because he or she was well over their minimum. However, the real answer is, **they both won**. If they voluntarily agreed to the transaction, then they both benefit from the exchange.

Closure:

In the free market, producers and consumers (buyers and sellers) voluntarily come together to seek mutual benefits.