

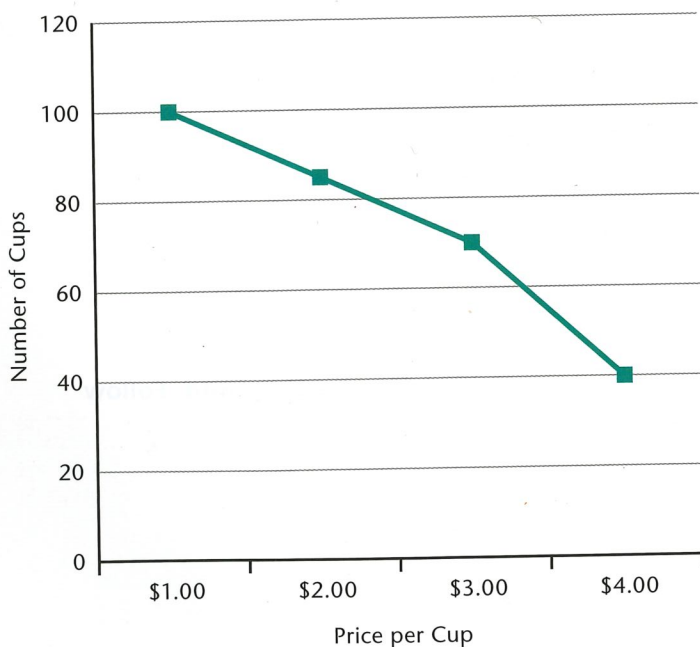
Supply and Demand in the Global Economy

- 1 There is a saying that a butterfly flapping its wings in Japan can cause a hurricane in North America. This saying illustrates what can happen in a global economy. An event in a business in one country can significantly affect businesses in other countries. This happened in July 2007 when an earthquake closed several Japanese power plants. These plants produced energy. Because the Japanese could not use their own energy, they needed to buy more oil from other countries. As a result, oil prices around the world rose. This shows that a natural disaster in one country can change the prices of a global product, such as oil, and can cause energy prices to increase around the world.
- 2 When someone or something wants or needs a product, it is called *demand*. In the example above, the Japanese demand for oil increased. When people want more of a product, **there is a growth in demand**.
- 3 Coffee is an example of a global product that is in growing demand. Every morning, over 166 million Americans wake up and drink their first cup for the day. As they drive to work, they stop at a coffee shop and buy their second cup. By the end of the day, the average American has drunk three cups of coffee. Therefore, the average demand for coffee at current prices in the United States is three cups per day per person. It is important

WHILE YOU READ 1

Look back at paragraphs 1 and 2. Highlight the words meaning *growth*.

Figure 3.1 Demand for Coffee in Cups per Month



Source: Author

Table 3.1 Cost of Coffee in the U.S. from 1900 to 2012

YEAR	COST PER POUND OF COFFEE
1900	0.16
1920	0.35
1930	0.26
1950	0.90
1970	1.03
1980	2.45
1990	2.35
2000	3.54
2006	3.11
2012	5.69

Source: Author

to note that a person will buy three cups per day at current prices. If the price of a cup of coffee increases, the person may decide to drink only two cups per day. The **law of demand** states that as prices rise, demand falls. An average person will buy 70 cups of coffee each month if the coffee costs \$3 a cup. However, if the cost increases to \$4, the same person will now only buy 40 cups per month. (See Figure 3.1.)

4 Businesses want demand to increase so they can sell more products. However, they must also have enough of their product to sell. This is called **supply**. Supply and demand are closely connected. In the 1980s and 1990s, for example, the global demand for coffee grew rapidly, and so did the price. (See Table 3.1.) Coffee companies needed more coffee beans, so many farmers in countries such as Brazil and Vietnam grew more coffee – they increased the supply. The farmers received a good price for their coffee beans. However, by 2002, farmers had produced a surplus of this product. In other words, they were producing too much coffee – the coffee supply was 8 percent higher than the demand. As a result, coffee prices fell. Coffee farmers could not sell their beans at the previously high price, so they stopped growing coffee and grew a different crop.

5 A change in supply can have a global effect. Much of the world's corn is grown in the United States. In the past, corn was used mainly for human and animal consumption. However, since 2005, corn has also been used to produce ethanol – an alternative fuel for automobiles. From 2005 to 2007, the United States' supply of corn for food decreased by approximately 33 percent. This was because corn suppliers, the farmers, sold an increasing amount of this crop to ethanol producers. As a result of this drop in supply, corn skyrocketed to its highest price in 10 years. This price increase had a significant effect in Mexico, a country that imports corn from the United States. In a country where 50 percent of its population survives on less than \$4 a day, Mexican families depend on tortillas, a basic and inexpensive food. Corn is the main ingredient of the tortilla. Therefore, when the price of corn doubled in March 2007, the cost of tortillas also doubled. A change in the supply of corn in the United States led to thousands of Mexicans gathering in the streets to protest this increase in the cost of the **tortilla**.

6 The laws of supply and demand are at the center of every business – from a very large global company to a small store that sells freshly cooked kebabs on a street corner in Turkey. Successful businesses today need to understand that in these days of global trade, a change in supply or demand in one part of the world can have major effects on the rest of the world.

WHILE YOU READ 2

Read ahead and find the definition of the *law of demand*. Highlight it.

WHILE YOU READ 3

Highlight the definition of *supply*.



WHILE YOU READ 4

Highlight the claim in paragraph 5.

Main Idea Check

Match the main ideas below to their paragraphs. Write the number of the paragraph on the blank line.

- _____ A Demand refers to the want or need for a product.
- _____ B Businesses need to understand the laws of supply and demand.
- _____ C An event in one country can affect businesses in other countries.
- _____ D A change in supply in one country can affect prices in other countries.
- _____ E The changing price of a cup of coffee illustrates the law of demand.
- _____ F Supply and demand are related to each other.

A Closer Look

Look back at Reading 1 to answer the following questions.

- 1 Why did the writer of the reading include a saying about a butterfly and a hurricane in paragraph 1?
 - a It explains the law of demand.
 - b It shows that butterflies can cause hurricanes.
 - c It helps the reader understand the main idea of the paragraph.
 - d It helps the reader understand Japanese business.

- 2 According to paragraph 3, what will the average consumer do if the cost of a cup of coffee sharply increases?
 - a Buy more coffee
 - b Stop drinking coffee completely
 - c Buy fewer cups of coffee
 - d Buy the same number of cups, but complain

- 3 The example of coffee growers shows that when supply is higher than demand, prices rise. **True or False?**

- 4 Reread paragraph 4. Then complete the diagram of supply and demand. Put sentences A–E in the correct order of events. Write the correct letter in each box.



- A The price of coffee fell.
- B The demand for coffee increased.
- C Farmers grew less coffee.
- D Farmers grew more coffee.
- E There was a surplus of coffee.

- 5 According to paragraph 5, why did the price of corn rise from 2005 to 2007?
- a People were eating more tortillas, so demand grew.
 - b The supply of corn increased.
 - c The demand for corn decreased.
 - d The supply of corn for people to eat decreased.

Skill Review

In Skills and Strategies 5, you learned that writers use a range of vocabulary to talk about growing numbers, falling numbers, and words to describe change. Understanding the language of numbers will help you in reading and writing tasks.

Look back at Figure 3.1 in Reading 1, and answer the following questions. If you need help, review the Language of Numbers chart on page 88.

- 1 Which statement is correct according to the table?
- a The cost of coffee increased steadily from 1900 to 2006.
 - b From 1970 to 1980, the cost more than doubled.
 - c The cost of a pound of coffee rose by 10 cents from 1980 to 1990.
- 2 Which statement is *not* correct according to the table?
- a From 1930 to 1990, the cost of coffee increased to \$2.35 per pound.
 - b In 2006, coffee cost 66 cents per pound more than it did in 1980.
 - c From 1970 to 1980, the cost increased by almost 100 percent per pound.
- 3 In which period did coffee more than triple in price?
- a 1900–1920
 - b 1930–1950
 - c 1970–1980
- 4 Which statement best describes the main idea of the table?
- a The cost of coffee more than doubled from 1970 to 1980.
 - b In 2006, coffee cost almost three dollars more per pound than it did in 1900.
 - c In 1990, the cost of coffee fell by 10 cents per pound.
 - d The cost of coffee increased steadily during the twentieth century.

Definitions

Find the words in Reading 1 that complete the following definitions. When a verb completes the definition, use the base form, although the verb in the reading may not be in the base form.

- 1 To _____ means to explain something by giving examples. (v) Par. 1
- 2 Large industrial buildings or factories are called _____. (n pl) Par. 1
- 3 A grain, fruit, or vegetable that is grown for food is called a/an _____. (n) Par. 4
- 4 A/An _____ is a result, or an impact. (n) Par. 5
- 5 _____ means about, or a little more or a little less than. (adj) Par. 5
- 6 To increase sharply means to _____. (v) Par. 5
- 7 To _____ is to live. (v) Par. 5
- 8 A/An _____ is one part of something – usually food. (n) Par. 5
- 9 If you _____, you show that you strongly disagree with something. (v) Par. 5
- 10 A/An _____ problem is a very serious problem. (adj) Par. 6

Words in Context

Complete the sentences with words from Reading 1 in the box below.

affects	energy	fuel	previously
consumption	event	note	surplus

- 1 The election of Barack Obama was an important _____ in U.S. history.
- 2 There is a/an _____ of apples, so the price has dropped because farmers cannot sell them all.
- 3 Using the sun and the wind is a natural way to produce _____.
- 4 When the cost of oil increases, it _____ the prices of many other products.
- 5 It is important to _____ that some countries do not have a minimum wage.
- 6 Mexico is now producing electronic parts that were _____ made in Sweden.
- 7 _____ of beef in China is increasing because the Chinese are eating more of this product than in the past.
- 8 In Brazil, 40 percent of all automobiles use _____ made from ethanol; the remaining 60 percent use gas.

Critical Thinking

Writers often use examples to explain key terms. In Reading 1, the writers use the example of cups of coffee to explain the term *demand*.

A Complete the following statements with a partner using information from the reading.

- 1 Demand is _____
- 2 Supply means _____
- 3 The law of demand states that _____

B With a partner, think of your own examples to explain the terms. For instance, you could discuss how the cost of gas or cell phones increases and decreases.

CLARIFYING CONCEPTS

Critical thinking includes exploring a concept in a text by restating it and applying it to a different context.

Research

Work with a group. Think of a food or drink product that the people in your group buy several times a month. For example, you could choose bottled water or pizza. On average, how many times a month do the people in your group buy this product at today's price. Suppose the price increased by 10 percent, 50 percent, or more. Agree as a group how many times a month you would then buy the product. Enter the number of times in the chart.

PRODUCT: _____	
	NUMBER BOUGHT PER MONTH
At today's price	
After an increase in price of 10%	
After an increase in price of 25%	
After an increase in price of 50%	
After an increase in price of 100%	
After an increase in price of 200%	

Writing

Use your research to make a graph in order to explain the law of demand. Refer to Figure 3.1 on page 92 if you need help. Then write a paragraph to explain the law of demand. Begin your paragraph with a definition of the term *demand*. Use your research to explain how demand for the product changes as the price changes.