Using Strawberries & Starburst to Teach Perfect Competition

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Activity: Students become buyers & sellers of strawberries at a farmer's market

Objectives:

- Provide concrete example of perfectly competitive market (hard to observe in reality)
- Illustrate characteristics of a perfectly competitive market

Particularly useful since (usually) first market structure covered and is the baseline for comparison for other market structures

Activity: Students become buyers & sellers of “strawberries” at a farmer’s market

Instructor will need to provide the “strawberries”

No other materials needed except paper signs

Can complete in approx. 10-15 mins

Set-up:

- Break up into groups (group size & number of groups flexible)
- 1 group, who are the buyers, will leave the room

Farmer’s Market

01

Farmer (firm) 1

Strawberries are priced $3/lb

02

Farmer (firm) 2

Strawberries are priced $3/lb

03

Farmer (firm) 3

Strawberries are priced $3/lb

04

Farmer (firm) 4

Strawberries are priced $3.50/lb

The goal of each firm is to sell their strawberries to the buyers

Farmer's Market

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Strawberries are priced \$3/lb

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Strawberries are priced \$3/lb

04 Farmer (firm) 4

Strawberries are priced \$3.50/lb

Questions for buyers:

- Are there any firms that you are **not** willing to buy strawberries from? Why/Why Not?
- Assuming all strawberries are identical, do you have a preference as to which farmer/firm you're willing to buy from? Why/Why not?
- How many pounds of strawberries are you willing to buy from Farmer 1?

Can derive demand curve facing Farmer 1

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Strawberries are priced $3.50/lb

Questions for sellers:

- Do your strawberries differ from your competitors?
- Will you be able to sell any strawberries if you set your price above $3/lb.? Explain.
- Should you advertise, which would increase your costs of production, in order to sell more strawberries? Why/Why not?

Recap: Perfect Competition Characteristics

Large number of sellers

Multiple firms

Easy entry (exit) by new firms

Easy to plant/grow strawberries and sell them; driven by profit

No control over price

Each firm is "price-taker"

Standardized product

Identical product sold by all sellers

Compete only on price

Cannot differentiate product

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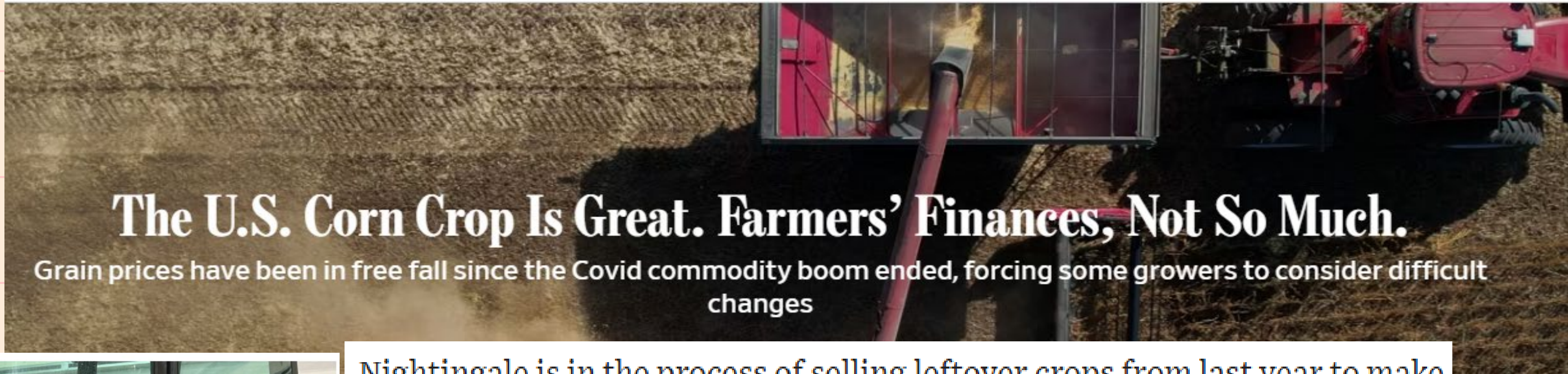

Illinois grain farmer Steve Nightingale is clearing out space for what he expects to be high yields. LIA NIGHTINGALE

"The way the market is now, I think most people are pretty nervous," said Steve Nightingale, who farms 1,700 acres of corn and soybeans in Henry County, Ill.

Nightingale is in the process of selling leftover crops from last year to make room for what he expects to be a bountiful harvest. But at his local grain elevator, he recently got $3.69 a bushel for last year's corn—14% below the $4.30 he needs to break even.

Exam Question:
Explain why Steve Nightingale, the corn farmer referenced, must accept the price of $3.69 per bushel from the grain elevator, which is the buyer of his corn. (i.e. Why can't he sell his corn to the grain elevator at a price of $4.30, which would allow him to break even?)

Students referenced the strawberry activity in their answer!

Thank you!

Enjoy your strawberry snacks! ☺