Moving From Mercantilism to a Market Economy

Adam Smith's *The Wealth of Nations*

1. Outline Adam Smith's pin factory analogy.
   a. Division of Labour:

   b. Nature of Wages:

   c. Foreign Markets:

2. How was Adam Smith's market economy different than mercantilism?

Student Information Sheet
Market Place Economy

One hundred high school students are looking for part-time jobs, but there are only 30 jobs available. What sort of wages are these jobs likely to pay?

Now, imagine that there are 30 jobs available but only 10 students willing to work. What sort of wages are these jobs likely to pay? What might an employer do to get one of these 10 students to work for him/her, or to persuade an 11th student to work?

There are 100 Lamborghini cars being imported to Canada this year, but there are 1,000 millionaires who want to buy a Lamborghini. What is likely to happen to the price of these Lamborghinis?

A family's pet dog had 9 cute puppies. They noticed that a lot of people sell puppies for anywhere from $100 to $200. Since these puppies were so cute, they decided to sell them for $150 each. Many people phoned to ask what breed the puppies were. The family responded that they did not know who sired the pups, but that the mother was part German Shepherd, part Collie, and part something else. No one seemed interested after that. After two weeks, not even one person had come to see how cute these pups were. Then they found out that most people who buy pups only want to buy pure-breds. So they put an ad in the paper offering to give away their cute, multiple-breed pups. To the family's great surprise, the puppies were gone in three days. When people saw the puppies, they instantly fell in love. Nine families came to see the puppies, and nine walked away with a warm, cute, cuddly puppy in their arms.

A man set up a fast food restaurant along a busy street. He advertised a lot, emphasizing his good food and fast service. At first, he was very busy, but after a month he noticed that the number of customers had been reduced to a trickle. He decided that perhaps his food was not good enough, and his service was not fast enough, so he made some improvements to his operation and then advertised his fast food restaurant with improved food and service. His business increased slightly for a few weeks, but then dropped even lower than it was before. Meanwhile, a competitor was building a new fast food restaurant across the street. Her advertising emphasized good food and friendly service. A week before her grand opening, she received a visit from the owner of the other fast food restaurant. He told her not to bother opening, because there was not enough business in this location. She found this hard to believe, since it was such a busy street, so she went ahead anyway.

Her grand opening was almost too successful; the line-ups were long, and people became impatient. At the end of the day she went across the street to tell the other restaurant owner that she had so much business she could have filled his restaurant too. He scoffed, and told her that at the end of the month her restaurant would be as dead as his. But at the end of the month her restaurant seemed as busy as ever. At the end of two months, she expanded her restaurant, and another competitor started to build one down the street. He could not figure this out, for he knew his food was just as good, and that he could offer faster service.

It seemed obvious to the first restaurant owner that there was a big demand for fast food in the area, and that restaurants to meet that demand were in short supply. In that case, why wasn't his restaurant busy? what was he missing? He decided to go across the street and check out his competitor and see if she was doing anything different than he. When he went to order he was shocked at her prices. $2.75 for a double burger, $1.50 for large fries, $1.25 for an extra large drink. His prices were more than twice as high as hers. He had never thought much about prices; he just set them according to how much money he wanted to make. When he started to lose customers, he raised his prices because he wasn't making enough money.

He hurried back to his restaurant to think. If he charged $2.50 for a double burger, $1.25 for large fries, and $1.00 for an extra large drink, and if he packed out his restaurant like the woman across the street, how much would he make? He realized that by doing that, he could make a lot more money in one day than he had made for the last month. So he advertised: good food, better service, the best prices. He couldn't believe the results. Within a week, his restaurant was more crowded than the one across the street had ever been. And when he had time to look out the window, he noticed that his competitor was not as busy as she used to be.

Can you identify the three factors necessary for the man's restaurant to prosper?

Can you identify those three factors in the other examples given on the previous page?

Student Information Sheet
A Supply/Demand Price Curve

Supply, demand, and price are the three most important elements in a market economy. The relationship between supply, demand, and price can be seen by using charts and graphs.

Price of Eggs in Sask	Supply (truckloads)	Demand (truckloads)
$4.00	50	2
$3.50	46	3
$3.00	41	4
$2.50	35	7
$2.00	28	12
$1.50	20	20
$1.00	10	32
$0.50	0	45

Given this information, plot the supply and demand curves on the chart below. Determine what the optimal price of eggs is by seeing where the supply and demand curves cross.