

A New Business:

Vinnie's Pizzeria and the Lessons of Supply and Demand

Introduction

This lesson introduces students to the basic economic concepts of supply and demand in a fictional narrative about a small business. Students learn what happens to the price and availability of items they may wish to purchase when changes occur in supply and demand.

Section I

Vinnie's Pizzeria-The Story of a Small Business

In a small town in New Jersey, Vinnie's Pizzeria was started back in 1961. The son of Italian immigrants Harry and Hazel Roma, Vinnie Roma finished high school and decided to open a restaurant. Vinnie's Pizzeria, it is called, was his pride and joy. He was able to start the business using money he earned from raking leaves in the fall and shoveling snow in the winter. His parents had been regularly saving money for their future and wanted to help Vinnie get started. Harry and Hazel contributed \$3,000 toward the cause. Vinnie figured that about \$5,000 would be enough to get him started, even though he didn't really know for sure.

It took about three months for Vinnie to choose a location for the pizzeria. He asked around town and visited about 20 different sites before finally deciding on a building. The building was located in the downtown area near the post office, banks and stores. It seemed the ideal place for a restaurant, offering adequate parking and convenience for busy shoppers to take a break.

Vinnie had many expenses, but he wasn't surprised. He expected that in the beginning it would be necessary to invest a lot of money into the business to get things going. Vinnie spent all but \$500 of the money, so he didn't have much left. Vinnie wasn't too worried, though, because he expected that the business would do very well. He just

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needed to get started selling pizzas. In order to make pizzas, Vinnie needed supplies, equipment, and utilities.

Vinnie contacted a supplier, called Food Magic, which could provide him with all of the ingredients needed to make pizzas. This same supplier could also provide the boxes for the pizzas, all the needed paper products, and beverages. For the sake of simplicity, Vinnie decided to buy all of these supplies from Food Magic.

Because all of these supplies cost a lot more money than he expected, Vinnie decided to take out a small business loan to help. The loan for \$2000 would give him enough money to meet these expenses. The first payment for the loan would be due in one month and Vinnie would pay \$120.00 over 20 months for a total of \$2400. The \$400 is the interest due on the loan.

Opening Day: Success is on the way?

Finally, after all of the preparation, searching, cleaning, setting up and worrying, Vinnie's Pizzeria was ready to open. Mom and Dad were there, as well as friends from high school and family members from out of town. It was an exciting grand opening. Many pizzas were sold and the money from the day's work was about \$2,000. Vinnie thought that this was a good day as far as the money he made, so he felt very optimistic about the potential success of the business.

Six months passed, Vinnie continued to sell his pizzas and had a good flow of regular customers. During this time, the prices for all of his supplies were about the same as when he first started doing business with Food Magic. However, this would soon change. The sales representative for Food Magic, Art Walsh, contacted Vinnie and requested a meeting. Vinnie didn't think much of it, but agreed to the meeting. It was a Tuesday morning and Art arrived at the restaurant with a thick manila file folder in his hand. He gave it to Vinnie and asked him to open the folder and review the price lists inside.

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Vinnie's expression suddenly changed. He was clearly stunned, surprised and now very concerned. The prices for all of the food ingredients jumped. Maybe it wouldn't have been so bad if only the cheese became more expensive. However, everything that Vinnie needed had price increases. This was not good news. Art explained that the prices that Food Magic paid for these items increased, so the company had to increase the prices charged for the restaurant's supplies.

Apparently, more businesses were buying these supplies in order to sell them to restaurants. The demand for the food and paper items had increased. For that reason, the suppliers raised their prices. There were fewer goods available, in addition to the demand going up. The supply of the goods was decreasing and prices were increasing because of the higher demand for them.

This seemed reasonable enough to Vinnie, but he now needed to figure out how he could keep selling his pizzas, while making the same money he was accustomed to.

Sadly, Vinnie found it necessary to raise the price of his pizzas to \$18.00 up from \$15.00. In the beginning he had the same amount of traffic into the restaurant; however, after about a month he noticed that the daily sales had decreased from about \$2,000 to \$1500.

Art Walsh stopped by again with a manila folder, but this time he showed up without an appointment. He warned Vinnie that the prices for all of the supplies were again going up. Apparently this time there was a problem with a strike. The workers went on strike at the manufacturing plant that processed all the materials for food and paper products. What's worse is that the strike affects about 100 different plants. There are a few temporary workers at some of the plants, but production is significantly down. This has caused a shortage of pizza supplies and a significant hike in prices. Poor Vinnie; what will he do? Can his business survive?

What would you do?

Assessment- Complete Worksheet I before proceeding to Section II.

Section II - Decrease in supply, same demand and higher prices

You read a story about an individual who started a small business. While the story is fictional, it does describe some of the situations that can arise. Business people often deal with buying and selling things. They set prices for selling their goods and services based on how much it costs their businesses to offer them and how much profits they hope to make.

If the price of cheese, sauce and ingredients for dough increase, then it is likely that the final product's (pizza) price will also go up. However, what can make the price of the food supplies go up in the first place? One scenario is what you read in the story. There was a strike and the production of the supplies decreased. Now there were businesses which still wanted to buy the supplies, but there were far fewer supplies available. The supply decreased. Because those supplies became scarce, their prices increased. The businesses which buy the supplies then will need to raise the prices of their goods and services that they sell. The higher cost of doing business is passed on to the customers.

Assessment- Complete Worksheet II before reading *The Bottom Line*.

The Bottom Line

While this story is fictional, the situation of what can happen with prices is common in everyday life. Whether it is the price of gas, milk or cars, supply and demand affects all of us.

The general rule is as follows:

A lower supply usually results in higher prices.

A higher supply usually results in lower prices.

Section II - Decrease in supply, same demand and higher prices (Cont'd)

Supply is the amount of a product or service that is available. Demand is the amount of service or product that people want to buy.

A higher demand usually results in higher prices.

A lower demand usually results in lower prices.

Sometimes sellers of goods and services will do something different. Even if the supply is high, instead of lowering prices to get rid of the items, sometimes businesses will raise prices. Why would businesses do this? They may conclude that even if they sell fewer items, they could still make money by charging more for each item.

Supply, demand and price move up and down in relation to each other. Understanding these concepts will allow you to understand the basics of economics in the free market.

Final Assessment: Complete Worksheet III- Case Study.

Name _____

Date _____

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Supply and Demand

Pre-Assessment - Worksheet 1

After reading about Vinnie's Pizzeria, consider what you would do in his situation.

Using complete sentences, answer the following question:

Would you raise prices on your pizzas or lower them?

In the space below, explain why or why not.

Concepts of Supply and Demand

Worksheet II

Using the story about Vinnie's Pizzeria, the concepts presented in The Bottom Line, and a dictionary (if needed) complete the following:

Define the terms using complete sentences:

1. Supply
2. Demand
3. Price
4. Cost of doing business
5. Loan
6. Interest
7. Economics

Case Study: Supply and Demand

Worksheet III

Using the table of milk prices at

<http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELDEV3023056&acct=dmktord> (scroll to the bottom of the document), answer the following questions:

Pretend that you are in the business of making ice cream. Your company sells it to retailers like supermarkets.

Consider what has happened to the price of whole milk from 2001-2005.

Based on the table, would you raise or lower prices on your ice cream? Why? Is there another way that you could make money even with changes in the price of milk?