

UNIT 3: LESSON 9

Name _____

ACTIVITY 1

PRICES AND PROFITS

Background: Pierre's Bakery is doing a good business, but Pierre would like to improve his profits. Some items cost more to produce than others. (They take more labor time to make, have more expensive ingredients, and so on.) He has thought about raising the price on those items, but there are several other bakeries in the area, so he must keep his price close to theirs if he wants to stay competitive. Also, he knows that raising prices will have an effect on how much people will buy. He is not sure whether raising prices on some items will actually increase sales revenue for those items. Pierre decides to use a market survey to see if raising the price of Pierre's Pecan Puffs will increase his sales revenue (and, therefore, his profits). Fill out the chart below to help Pierre find out whether raising prices will increase his sales revenue. (All figures are for three months of business)

PRICES AND PROFITS FOR PIERRE'S PECAN PUFFS

| Price | Quantity Demanded | Sales Revenue | Cost of Production | Accounting Profit |
|--------|-------------------|---------------|--------------------|-------------------|
| \$2.00 | 300 | | \$285.00 | |
| 1.75 | 450 | | 427.50 | |
| 1.50 | 800 | | 760.00 | |
| 1.30 | 1000 | | 950.00 | |
| 1.10 | 1100 | | 1045.00 | |
| 1.00 | 1200 | | 1140.00 | |

1. What happens to quantity demanded (the amount consumers will buy) when price goes up?
2. Does sales revenue increase as price increases?
3. Does profit increase with each increase in price?

ACTIVITY 2 PIERRE'S PRODUCT PICKS

Instructions: Using the information provided, calculate the missing numbers and decide which items make the profit for Pierre. Mark the six most profitable items in the profit column with a (+); mark the three least profitable items with a (-). The figures for Columns 3–6 are for three months at Pierre's Gourmet Bakery.

| Item | Price | Quantity Demanded | Sales Revenue | Cost of Production | Profit |
|----------------------|--------|-------------------|---------------|--------------------|--------|
| Pierre's Pecan Puffs | \$1.50 | 800 | | 760 | |
| Buttery Bread Sticks | .75 | 1100 | | 605 | |
| Chez Cherree | 1.20 | | 1080 | 675 | |
| Doughnut Delights | .85 | 2000 | | 1000 | |
| Coca cubes | | 3000 | 1500 | 600 | |
| Apple Tarts | 1.00 | 400 | | 360 | |
| Chocolate Clouds | 1.50 | 200 | | 1000 | |
| Paris Pound Cake | 4.00 | 200 | | 760 | |
| Cinnamon Curls | | 4000 | 4000 | 2000 | |
| Sweet Nothings | .60 | 5000 | | 2500 | |
| Super Cinnamon Rolls | 1.50 | 1200 | | 1140 | |

1. Do the highest priced items always provide the highest sales revenue? The highest profit? Why or why not?
2. Do the items that sell the most (quantity demanded) provide the highest revenue? Why or why not?

Name

ACTIVITY 3

THE STUDENT SNACK SHACK

Instructions: The seventh graders at Pioneer School have decided to open a snack bar. They will be able to sell items to students before and after school. After doing some market surveys, they have come up with the information below on what items will sell best at prices that will be similar to prices at other stores in the area. Using the information provided, calculate the missing numbers and decide which items make the most profit for the Snack Shack.

(figures are for one month)

| Item | Price | Quantity Demanded | Sales Revenue | Cost of Production | Accounting Profit |
|--------------|-------|-------------------|---------------|--------------------|-------------------|
| Doughnuts | \$.60 | 200 | | \$100.00 | |
| Yogurt | 1.00 | 50 | | 42.50 | |
| Orange juice | 1.20 | 100 | | 100.00 | |
| Fresh fruit | .85 | 50 | | 25.00 | |
| Nachos | 1.75 | 250 | | 400.00 | |
| Chips (bags) | .75 | 300 | | 180.00 | |
| Popcorn | .50 | 500 | | 175.00 | |
| Soda | .50 | 400 | | 185.00 | |
| Lemonade | .75 | 100 | | 50.00 | |
| Candy | .40 | 150 | | 52.50 | |
| Gum | .25 | 200 | | 30.00 | |

1. Select 3 items for selling before school and 5 items for selling after school, based on which will provide the greatest profit
2. Are there any reasons for choosing items to sell that make less profit?