Econ Essentials

An Economist Answers Questions from Students Just Like You!

Global economics affects everything from the food we buy to the price we pay when filling up a tank of gas. Learn how economics plays a role in your daily life in this student-led Q&A with Bluford Putnam, Chief Economist at CME Group.

Question #1: What is supply and demand and how does it have an impact on the price of things?

Bluford Putnam: It is a lot more complex than it might sound. The essential concept of how supply and demand impacts market prices is that if the quantity demanded exceeds the available quantity that can be supplied, suppliers can raise the prices until the quantity demanded is reduced so that a balance with supply is achieved.

Let's think back to 2020 when the demand for everyday household goods like toilet paper and antibacterial cleaners just skyrocketed. As a result, the supply was quickly depleted, prices increased due to a lack of supply, and it took several months for manufactures to produce enough to meet the demand and level set prices again.

In looking at cars as another example, we've all heard of an increase in prices across the board, this was due in part of the pandemic. The supply of certain parts required to manufacture cars decreased causing the number of cars available on the market to drop. The demand for cars outweighed the supply, which resulted in sellers raising their prices.

Recommended Econ Essentials supplemental resource: Supply and Demand: What Happens When Things Change Rapidly?

Question #2: What makes people buy or not buy something? Does it have to do with preference or price?

Bluford Putnam: Preferences and prices are critical to the decision to buy something or not and depend a bit on the person and the specific item or items under consideration. For example, if one needs to drive a car to get to work, and the gas prices go up, one must pay the higher price as gas is an essential item for them. As a result, they may then buy less of other discretionary items, or look for less expensive alternatives for other everyday items to offset the higher cost of gas.

One may have a preference for the latest clothing fashions, yet price might be the deciding factor as to whether one buys top end clothing or goes for a less expensive option. But if an item goes on sale, say 20% off, that person may then be inclined to purchase the more expensive item knowing they're getting it at a discounted price.

Recommended Econ Essentials supplemental resource: How We Are Affected by Price and How We Are Affected by Preference.

Question #3: Why are interest rates important even for a student like me?

Bluford Putnam: Interest rates are tightly linked to how we perceive value over time. Likewise, interest rates play a role in nearly everything we buy directly or indirectly. Let's talk about interest rates in terms of the cost of borrowing money to buy a car or pay for a student loan.

If one decides to buy a car, one can pay the full price upfront, or one can pay a small down payment and borrow the rest making payments over time, say for the next five years. Those future car loan payments are going to cost more in total if interest rates are higher. The same applies to taking out a student loan. If paying tuition in full at the start of the year isn't feasible, students can borrow money with interest from the government or private lender, which they'll need to pay back over time. The interest rate at which they're able to lock in their loan will determine how much they ultimately need to pay back to their lender.

Recommended Econ Essentials supplemental resource: Foundations of Finance.

Question #4: As a new driver I've definitely started paying attention to gas prices. Why do economists care so much about them though? And what's their impact on the global economy?

Bluford Putnam: Gasoline is certainly important for the economy, especially since so many people use their cars to drive to work or run their errands, but the reason gas prices get so much attention from economists is that they are critical for how people form their expectations of future inflation.

Gas prices are highly visible. Every time one fills up the tank in one's car, one gets a reality check on whether gas prices have gone up or down. Food prices work much the same way. Since folks tend to go to the grocery store at least once a week, if the tab at checkout seems to be getting higher each visit, inflation becomes a reality and inflation expectations rise. When inflation expectations rise, consumers may become more cautious about how they allocate their limited discretionary spending.

The interaction between inflation expectations and whether prices are rising a lot, or remaining relatively stable, is critical for economic analysis because of its influence on consumer confidence and overall spending.

Recommended Econ Essentials supplemental resource: Fueling the Future.

Question #5: I've heard a lot about an egg shortage recently, what causes the prices of food to increase or decrease?

Bluford Putnam: We've all heard about this one lately. There was an avian flu outbreak in the U.S that killed millions of chickens, including many of the hens that lay eggs. The resulting scarcity of eggs coupled with consumer demand drove the price of eggs sharply higher. Farmers will tell you that the cure for high prices is high prices and vice versa for low prices. What do they mean?

A period of high food prices will cause farmers to plant more crops at the beginning of the next growing season and those that raise poultry or livestock will try to expand their flocks and herds as soon as feasible. The eventual increase in the quantity of supply will lower prices, but it takes time. With food, the ups and downs of prices are often driven by unexpected changes in the weather, say drought, that reduces crop yields or in the case of eggs, avian flu that wiped out many chickens.

Recommended Econ Essentials supplemental resource: The Facts About Food.