THE HULA HOOP MARKET OF 1958

INTRODUCTION

History As the U.S. economy grew in the 1950s, people had more leisure time. Some businesses became successful producing products and services designed to be used during leisure time. The Hula Hoop created by Wham–O Manufacturing Company was one example.

Mystery Why would young people risk their time and money to manufacture a product that Americans had never heard of and which served no practical purpose?

Economic History To nearly everyone's surprise, people were willing to produce and consume Hula Hoops in 1958. In a market economy, prices act as incentives to sellers as well as buyers. The anticipation of what seemed then to be a high retail price for Hula Hoops encouraged Richard Knerr and Arthur Melin of Wham–O Manufacturing Company to produce Hula Hoops. Lower anticipated prices would have discouraged production. This relationship is known as the law of supply. Prices also act as incentives to buyers. Higher prices for Hula Hoops would discourage consumers from buying them. Low prices encourage consumers to buy Hula Hoops. This relationship is known as the law of demand. The interaction of sellers and buyers caused the price of Hula Hoops to be relatively high in 1958.

CONCEPTS

Demand
Supply
Market
Price
Incentive
Surplus
Shortage

OBJECTIVES

♦ Analyze prices as incentives to producers and consumers

♦ Use supply and demand diagrams to examine how setting the market price above or below equilibrium causes shortages or surpluses.

LESSON DESCRIPTION

Students discuss a mystery regarding the manufacture of Hula Hoops. Students examine a series of supply and demand diagrams and use them to explain the production of Hula Hoops in 1958.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.
A Hula Hoop, if you can find one.

PROCEDURE

1. Explain that the purpose of this lesson is to learn about the economics of a popular fad in the 1950s. Tell the class that shorter workweeks and increased income gave many Americans increased leisure time in the 1950s. Some Americans read more books. Some watched the newest television programs like "The Honeymooners," "Ozzie and Harriet," and "Gunsmoke." Many Americans—young and old—used some of their time to play with Hula Hoops.

2. Display Visual 1 and invite students to speculate about the solution to the mystery. If you were able to find one, demonstrate how a Hula Hoop works. Or, ask a student to do the demonstration.

3. Explain to the class that the invention of the Hula Hoop in the 1950s might seem a trivial event. However, millions of Hula Hoops sold from 1958–1959. We can learn a great deal about economic behavior in the past and the present by studying the Hula Hoop market.

4. Tell the class that people in 1958 enjoyed playing with Hula Hoops during their spare time. Some people even competed in Hula Hoop contests to see how long they could keep one spinning. Because people enjoyed the entertainment offered by owning a Hula Hoop, they were willing to pay relatively high prices for Hula Hoops in the late 1950s. In a market economy, ***prices*** act as incentives to buyers and sellers.

5. Explain that Richard Knerr and Arthur Melin of Wham–O Manufacturing Company believed American consumers would choose to buy millions of Hula Hoops. Their reward would be a profit from the sales.

6. Explain how prices served as ***incentives*** (and disincentives) to buyers of Hula Hoops by displaying Visual 2. Direct the students' attention to Point A on the graph and highlight the price ($2.00) and number sold (20 million) at Point A. Explain that higher prices for Hula Hoops would have discouraged buyers from purchasing a large number of Hula Hoops. Direct the students' attention to Point B on the graph and highlight the price ($0.50) and number sold (40 million). Show how lower prices would have encouraged buyers to purchase a greater number of Hula Hoops. This idea that at higher prices buyers would purchase fewer and at lower prices buyers would purchase more is known as the law of ***demand***.

7. Explain that prices in economic history also served as incentives to sellers of Hula Hoops. Prices offered producers opportunities to earn profits. Display Visual 3. Direct the students' attention to Point C on the graph. Explain that higher prices for Hula Hoops would have encouraged producers to produce more Hula Hoops by noting the number (40 million) they would have been willing to sell at this price. Direct the students' attention to Point D on the graph. Show how lower prices would have discouraged producers from producing Hula Hoops by noting the number they would be willing to sell at this price ($2.00). This idea that at high prices producers would produce more and at low prices they would produce fewer is known as the law of ***supply***.

8. Knerr and Melin knew about the laws of demand and supply. How do you think this knowledge influenced their thinking? (No one knew what the price of Hula Hoops should be. Too high a price would discourage buyers. Too low a price would discourage sellers. Knerr and Melin were betting that buyers were willing to pay relatively high prices.)

9. To explain the concept of ***market clearing price,*** display Visual 4. Direct the students' attention to Point E. It shows the market clearing price ($1.00) for Hula Hoops in 1958. At this point, the number demanded equals the number supplied. If sellers charged more than $1.00, buyers would not be willing to purchase as many Hula Hoops and a ***surplus*** of Hula Hoops would develop. Illustrate this by tracing a line from any price above the market price to the demand line. Then, trace a line to the number that consumers would purchase at this price and the number producers would produce. At prices above $1.00, producers would produce more Hula Hoops, but consumers would buy fewer. Continue to display Visual 4.

10. If sellers charged less than $1.00, buyers would quickly purchase the number produced and there would be a Hula Hoop ***shortage***. Illustrate this by tracing a line from any price below the market price to the number that producers would produce and the number consumers would buy. At prices below $1.00, consumers would buy up all the Hula Hoops and still want more.

CLOSURE

Point out that this lesson demonstrates how prices are incentives to buyers and sellers. Then introduce a new example: In the early 1990s, some entrepreneurs planned to introduce Hula Hoops in China. But they did not know what price to charge. With this situation in mind, ask the following:

A. How will Chinese buyers react if prices are high? (They will buy fewer Hula Hoops.)

B. How will Chinese buyers act if prices are low? (They will buy more.)

C. How will Chinese sellers act if prices are high? (They will produce or import more.)

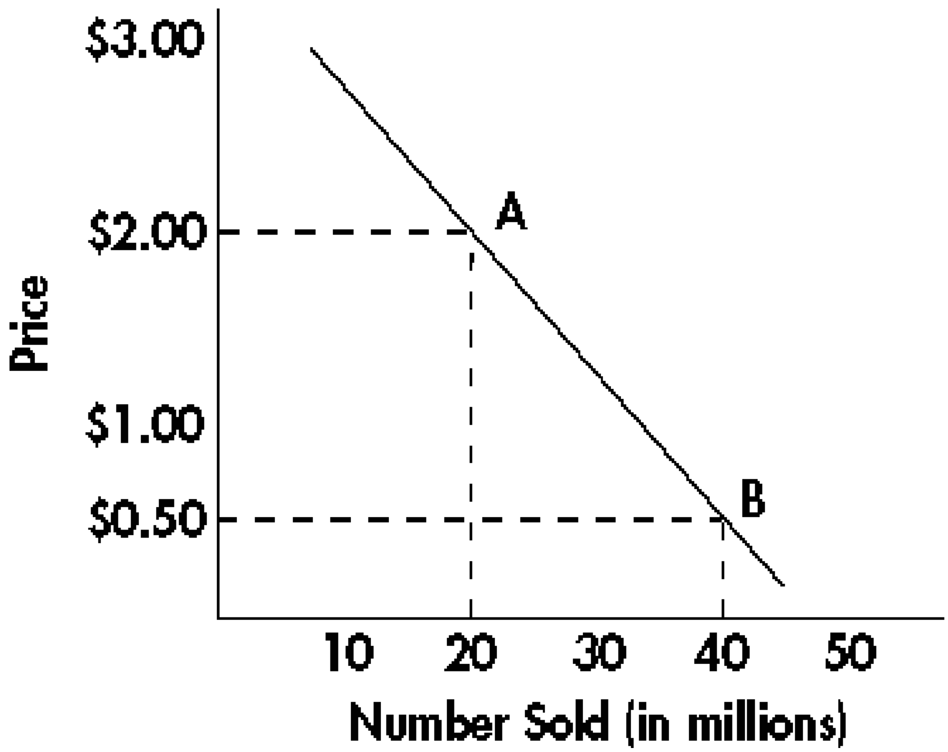
D. How will Chinese sellers act if prices are low? (They will produce or import fewer.)

E. What is the market clearing price? (The price where the quantity demanded equals the quantity supplied.)

VISUAL 1
THE GREAT HULA HOOP MYSTERY OF 1958

Why would Richard Knerr and Arthur Melin, young people, risk their valuable time and money to mass produce an unfamiliar product that served no practical use, and might even be dangerous? Why would anyone mass produce big hoops of brightly colored polyethylene tubing?

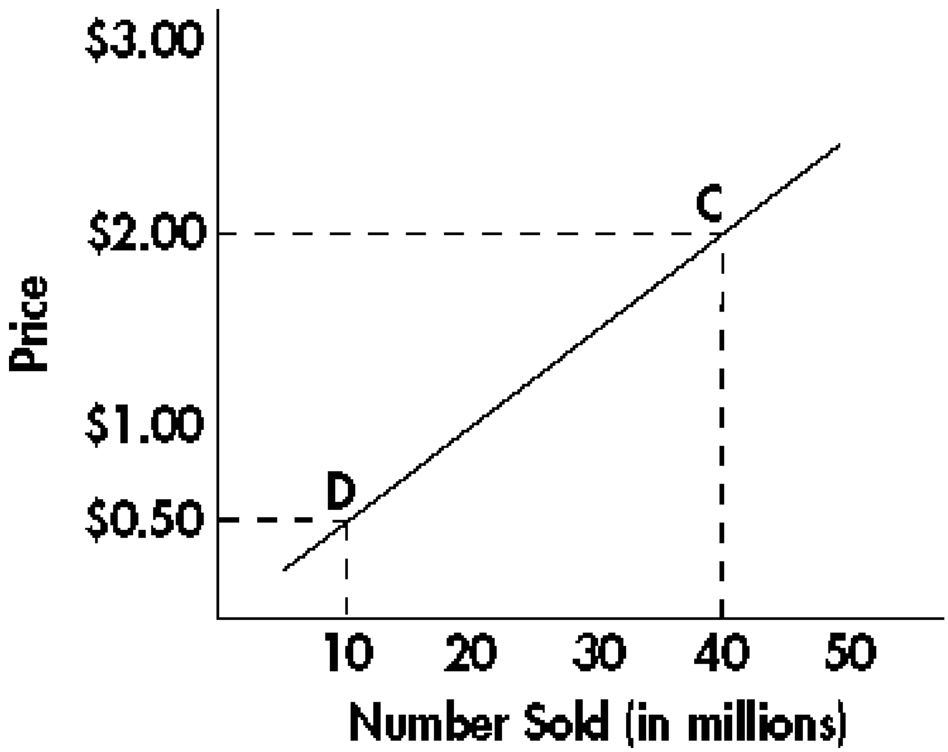
VISUAL 2
DEMAND FOR HULA HOOPS



A = PRICE IS A DISINCENTIVE TO BUYERS

B = PRICE IS AN INCENTIVE TO BUYERS

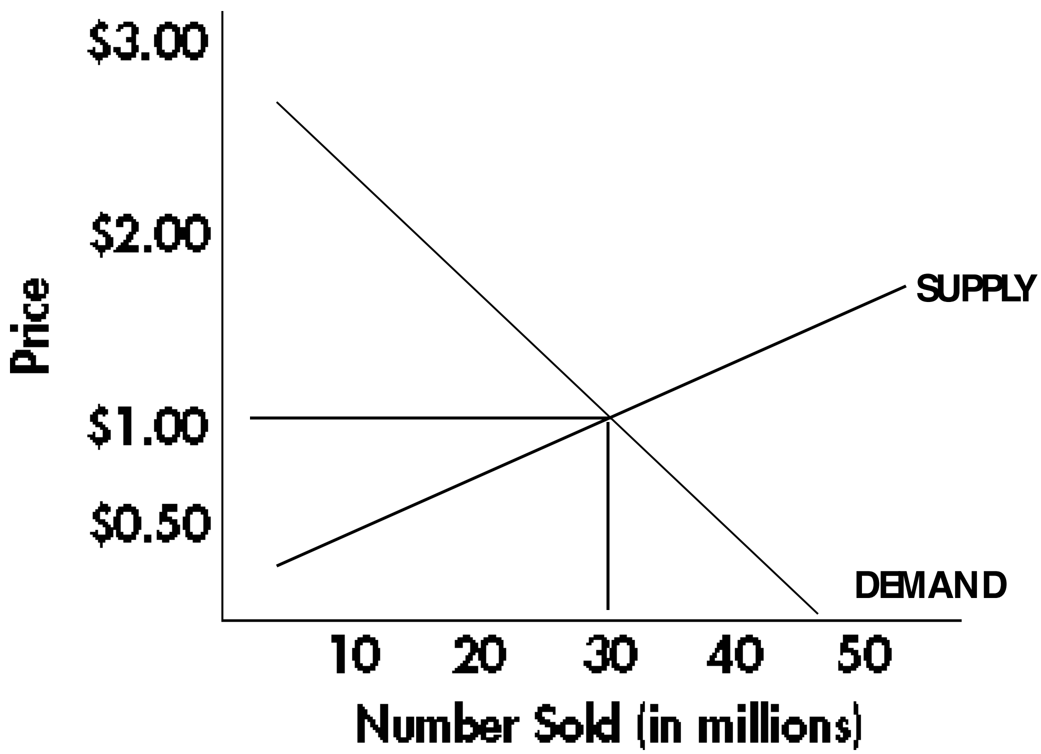
VISUAL 3
SUPPLY OF HULA HOOPS



C = PRICE IS AN INCENTIVE TO SELLERS

D = PRICE IS A DISINCENTIVE TO SELLERS

VISUAL 4
MARKET PRICE FOR HULA HOOPS



$1.00 = THE MARKET CLEARING PRICE, WHERE THE QUANTITY DEMANDED EQUALS THE QUANTITY SUPPLIED.

SAMPLE TEST ITEMS

LESSON 1

1. Which of the following statements is not part of the *Handy Dandy Guide*?
   - A. All actions involve cost.
   - B. Voluntary trade creates gains.
   - C. People respond to incentives in predictable ways.
   - ✓D. People have no choice over what happens to them.

2. Which of the following actions might discourage newspaper editors from falsely reporting "Elvis Sightings"?
   - A. Newsstands order twice the usual number of newspapers if the newspapers feature an Elvis picture and headline.
   - ✓B. Sales decline when a newspaper features an Elvis picture and headline.
   - C. A lawsuit is filed by the Presley estate asking for $100,000 in damages. Newspaper sales increase by 100 percent as a result of the publicity.
   - D. Elvis Presley's birthday becomes an official national holiday.

3. Rap Hammer voluntarily chooses to trade a computer and printer for Madonna Hill's motorcycle. What costs are involved in this trade and which person(s) gained from the trade?

Possible answer: Both people gain from the trade because they value the item they acquired more than the item they gave up. The cost for Rap Hammer was a computer and printer. The cost for Madonna Hill was a motorcycle.

LESSON 2

1. Why do strangers trade goods and services?
   - A. Most people enjoy working with strangers.
   - B. People like the challenge of working with people who speak a different language.
   - ✓C. People hope to gain by trading with strangers.
   - D. People cooperate in very random ways which cannot be explained by economic reasoning.

2. Whaling is a dangerous business with high costs. People are at sea for months at a time. Ships are expensive. Why did whalers put up with these high costs of production?
   - A. Whalers are all adventurous people who like to risk their lives.
   - ✓B. Customers want whalebone to make corsets and are willing to pay whalers to provide whalebone.
   - C. Whalers have no other job skills, so they must hunt whales for a living.
   - D. Whalers are required by law to hunt whales.

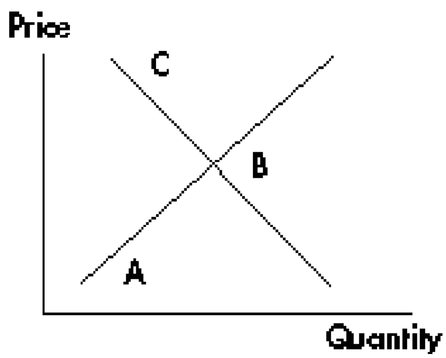
3. Which of the following clues indicate why customers switched from buying beaver hats and began buying silk hats?
   - ✓A. The price of silk hats was lower than the price of beaver hats.
   - B. All the beaver were killed by trappers, so hat producers no longer made beaver hats.
   - C. Silk appealed to customers because international trade was involved in the production of hats.
   - D. Silk is produced by worms.

4. Use two or more HDG statements to explain why petroleum producers helped save whales from extinction during the late 1800s.

Possible answer: Petroleum can be used as a substitute for whale products. Since petroleum was less costly to produce and easier to find than whales were, its price was lower than whale oil, so customers and producers of energy turned to the use of petroleum products and away from whale–based energy products. As costs were reduced (*HDG* 2), people responded to the lower price which resulted as an incentive to change their energy use behavior (*HDG* 3).

LESSON 3

1. Imagine these scenes. The year is 1958. Yesterday you walked past a store window attracting very few customers. Today that same store has a large sign in the window that reads: HULA HOOPS ON SALE: LOWEST PRICE IN TOWN. Many customers are lined up, buying Hula Hoops. This is an example of what principle?
   A. Strength
   B. The law of supply.
   C. An externality.
   ✓D. The law of demand.



2. The market clearing price is best described as
   A. The price which is too high for the average consumer.
   ✓B. The price that equates the quantities suppliers and demanders are willing and able to buy.
   C. The low price that clears the market of goods and services, causing a shortage.
   D. The high price that causes a surplus.

3. Which point on the following graph is located on the supply curve?

   ✓A. Point A
   B. Point B
   C. Point C

4. In a market economy, prices are established by:
   ✓A. Sellers and buyers as they respond to incentives.
   B. Sellers as they respond to incentives.
   C. Buyers as they respond to incentives.
   D. Government officials as they respond to incentives.