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The “Shock” to the Demand for Flowers

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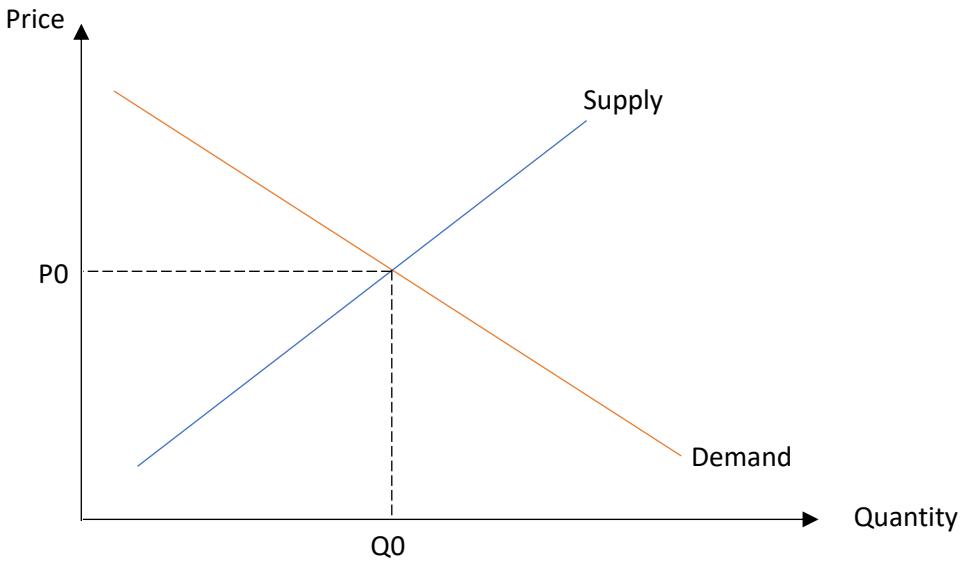
Key concepts: Demand shock; sticky prices; excess demand; short run vs. long run adjustments; market equilibrium.

On the 8th September 2022 HRH Queen Elizabeth II died. She was the UK’s longer standing monarch and head of state for 70 years. Over 90% of the world population at the time she died was born during her reign and had only known Elizabeth II as the British monarch.

People all around the UK and around the world wanted to present their respects and travelled to Balmoral, Buckingham, Sandringham, etc to lie flower tributes in memory of the Queen. The New York times estimated that there were around 60 million flowers brought to Buckingham Palace alone. Roses, chrysanthemums, lilies (reportedly the Queen’s favourites), and in general all types of flowers lied down in front of houses and monuments relevant to the Queen’s life. In a very short period of time, the demand of flowers drastically boosted.

Assume we have a hypothetical market for standard bouquet of flowers as shown in Figure 1, for this case study we ignore the fact that there are different types of flowers and these may have different market prices, we assume a basic case scenario with an equilibrium (P0) market price for a general quantity of flowers (Q0).

Figure 1: Initial Equilibrium



As soon as the BBC announced the concerning issues surrounding the Queen’s health on the morning of the 8th August 2022, people started to buy flowers as a symbol of thanks/condolence/sympathy for the sick Queen, soon the sales for flowers notably increased when the death was announced later on that day. At the same level of prices there is an increase in demand, and the demand curve shifts to the right (Figure 2).

Figure 2: Shock in Demand

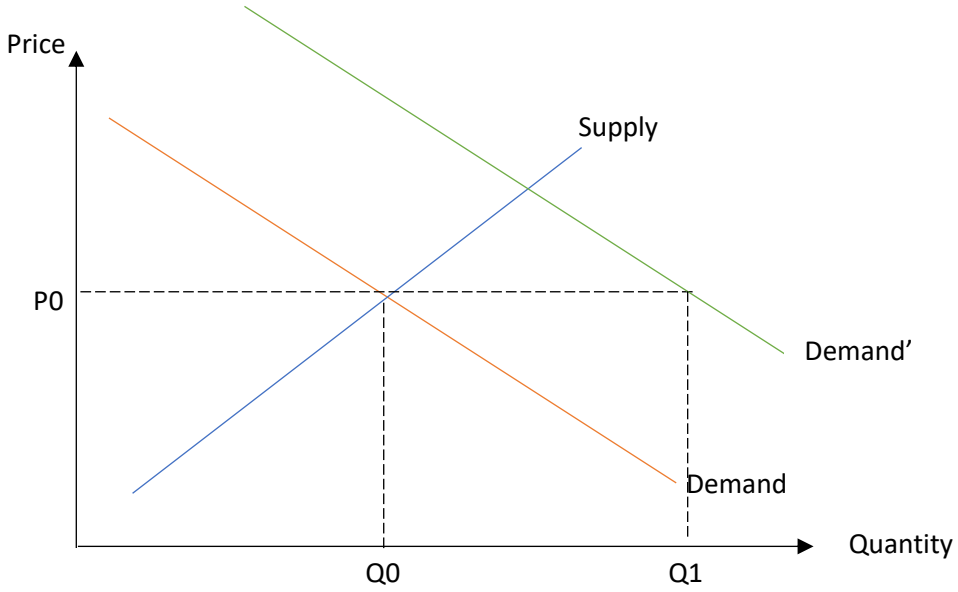
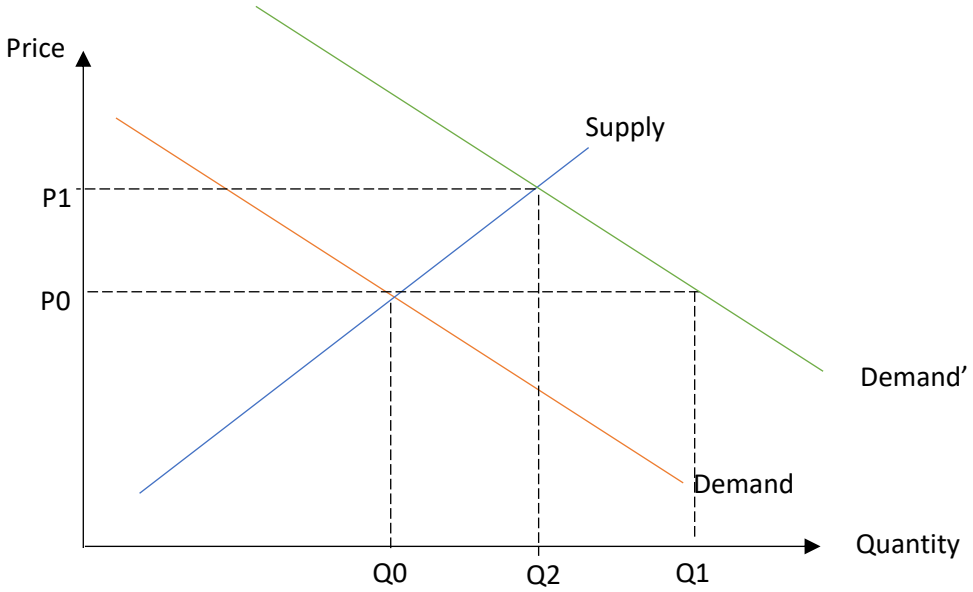


Figure 2 shows that for the initial price (P0) now the demand for flowers is (Q1). After the shift in demand shown in Figure 2 the price for flowers didn’t increase in the following days, it remained at the same level (P0) and so the market for flowers didn’t clear reaching a new equilibrium such as point B, in Figure 3, where prices are higher (P1) and demand (Q2) is higher than initially (Q0) but lower than Q1. This happens because during a short period of time we have sticky prices and uncertainty in demand, for example a supermarket may increase their price of flowers, however they still don’t know what the demand will be as there are no precedents.

Figure 3: New Equilibrium



Discussion questions

1. Discuss the different implications that this sudden increase in demand can have in the supply for flowers.
2. What do you think happened to the demand for flowers after the funeral of HRH Queen Elizabeth II?

Suggested Answers

1. A positive sudden demand shock like the one described in this case study with sticky prices will cause shortages (Q1 – Q0) ultimately increasing the final price in equilibrium if the shock long lives. However, many sudden demand shocks are usually short lived. The supply is not able to react immediately to the shocks in demand and so many times as in this case there will not be a reaction of the supply, or this reaction may come late.
2. After the funeral the demand for flowers decreased, shifting the demand to the left and returning to the initial equilibrium (Figure 1)