

3.9

Prices at Work



As a Young Historian, I will be able to...

The Price System

What do you look for when you have to buy a new article of clothing?

Is it worth it to buy online & return if you find something cheaper?



Our price system allows for equilibrium and for consumers & producers make knowledgeable choices

Prices are the most efficient way to allocate, or distribute, resources

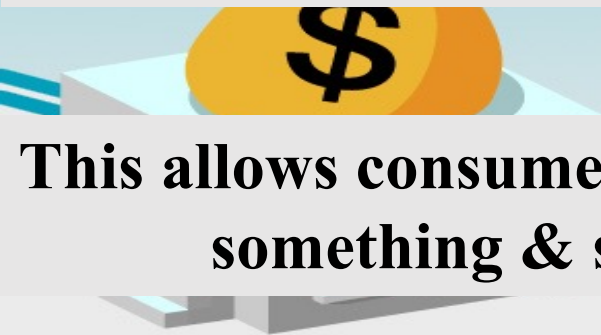
Benefits of the Price System

Barter- exchange one type of good or service for another

Incentives Buyers & Sellers look at prices to understand supply & demand. Buyers think they need to buy things that are expensive & sellers know to produce that!

Prices also serve as signals. High prices mean go and low prices mean stop

This allows consumers to know when to buy something & sellers to produce



More Benefits!

Prices are responsive & flexible! They change according to needs or materials in the market

Supply Shock- Sudden shortage of a good such as gasoline or wheat

Rationing- System of allocating goods and services using criteria other than price.

Rising prices are always the quickest way to resolve a shortage.

Price system is also “free” & costs nothing to administer & monitor the market!



Choice & Efficiency

Our diversity of goods and services allow consumers multiple choices of what to buy & sellers to make

Our free enterprise system has responsive prices that result from consumers' demand

Can you think of any events during history that required rationing?

Black Market- People conducting business without regard to government controls on price or quantity

Our free market allows prices to distribute resources efficiently & we can allocate them

Prices & Profit Incentive

Efficient resource allocation works with profit incentives. What would happen if scientists predicted a cold snowy winter?

Does the market raise prices in anticipation?

However, there is imperfect competition in the market

There is also negative externalities of how resources are used, such as pollution



