

GUIDED READING Activity 6-1

For use with textbook pages 143–146.

PRICES AS SIGNALS

RECALLING THE FACTS

Directions: Use the information in your textbook to answer the questions. Use another sheet of paper if necessary.

1. What are the four reasons that prices in a market economy perform the allocation function so well?

- a. _____
- b. _____
- c. _____
- d. _____

2. What is rationing, and when is it most likely to be used?

3. Describe the problems that rationing can lead to.

- a. _____
- b. _____
- c. _____

4. What is a rebate, and how is it used?

GUIDED READING Activity 6-2

For use with textbook pages 148–154

THE PRICE SYSTEM AT WORK

OUTLINING

Directions: Locate the following headings in your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

I. The Price Adjustment Process

A. A Market Model

1. What are economic models used for?

2. What is the equilibrium price?

B. Surplus—What can we assume about price based on the size of the surplus?

C. Shortage—What will happen to the price and quantity supplied in the next trading period as a result of a shortage?

D. Equilibrium Price—What tends to happen to the market once the equilibrium price has been reached?

II. Explaining and Predicting Prices

A. Introduction—What factors are important in predicting changes in prices?

B. Change in Supply—What is one of the main reasons for variations in agricultural supplies?

C. Change in Demand—Why did the price of oil increase dramatically when demand increased in 2005 and 2006?

D. Change in Supply and Demand—Why did the price of oil increase even more after hurricanes Katrina and Rita?

E. The Importance of Elasticity—How does elasticity affect the size of the price change when supply or demand changes?

F. Prices and Competitive Markets

1. When is the price system most efficient? _____

2. What is the great advantage of competitive markets? _____

GUIDED READING Activity 6-3

For use with textbook pages 156–161

SOCIAL GOALS AND MARKET EFFICIENCY

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

target price

nonrecourse loan

price ceiling

social goals

"land banks"

price floor

deficiency payment

impersonal mechanisms

economic security

Introduction/Distorting Market Outcomes

In order to achieve the seven broad economic and **1** _____, we may require policies that distort allocations made in the market. Achieving the goal of **2** _____ occasionally results in legislation changes that can benefit some and be detrimental to others. One of the common ways of achieving **3** _____ involves setting prices at "socially desirable" levels. When this happens, prices are not allowed to adjust to their equilibrium levels. One type of control is the **4** _____, a maximum legal price that can be charged for a product. Another is the **5** _____, which is the lowest legal price that can be paid for a good or service. An example is the minimum wage.

Agricultural Price Supports

In the 1930s, farmers borrowed money from the Commodity Credit Corporation, an agency of the Department of Agriculture. In an effort to support American farmers, the CCC used a(n) **6** _____, which is essentially a price floor for farm products. The farmers borrowed money at the **7** _____ and pledged their crops as security. Since such a loan had neither a penalty nor further obligation if not paid back, it was called a(n) **8** _____. This loan program's drawback was that the U.S. Department of Agriculture ended up owning enormous stockpiles of food. The next solution was to give farmers a(n) **9** _____. In this situation, farmers sold their crops on the open market for the best price they could get. Then the government sent them a check to make up the difference between the actual market price and the **10** _____. To help offset the cost of farm programs, the Conservation Reserve Program of 1985 offered to pay farmers not to farm. Under the program, farmers agreed to set aside previously farmed acreage into **11** _____, and they were paid an annual fee in return. However, efforts to make agricultural output responsive to market forces have not lowered the overall cost of farm programs.

When Markets Talk

Markets are **12** _____ that bring buyers and sellers together. They are said to "talk" when prices in them move up or down significantly in response to outside events, such as government policy changes.