

Guided Reading Activity

Prices

Lesson 3 *Social Goals, Prices, and Market Efficiency*

Review Questions

Directions: Read each main idea. Use your textbook to supply the details that support or explain each main idea.

A. Controlling Prices

Main Idea: Government policies can sometimes create shortages or surpluses that prevent prices from reaching equilibrium. These policies may be intended to more fairly allocate goods and services among the population, but regulating price stability has negative effects as well as positive ones.

- 1. Detail:** In the U.S. _____ free enterprise economy, the government may set _____ at a particular level to achieve certain social goals.
- 2. Detail:** The imposition of a price _____ may lead to _____ as manufacturers reduce production due to lower profits.
- 3. Detail:** When government sets a price _____, the product becomes more profitable to produce and a _____ may result.

B. Examples of Fixed-Price Policies

Main Idea: Price ceilings and floors are generally applied to products or resources that are essential for people to live. Price ceilings have been applied to rental housing to enable low-income people to have a home. Price floors are often applied to agricultural products to ensure that farmers can stay in business and continue to produce the food people need.

- 1. Detail:** Because prices for crops fluctuate based on uncontrollable factors like weather, the government uses price _____ to help _____ prices for important agricultural products.
- 2. Detail:** A _____ loan from the government to a necessary producer does not have to be _____.
- 3. Detail:** Although rent control helps achieve the goals of economic _____ and economic security, it can conflict with the goal of economic _____.

Guided Reading Activity *cont.*

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C. When Markets Talk

Main Idea: Markets talk through the actions of buyers and sellers of goods. The “speech” in market talk is the rising and falling of prices in reaction to changing conditions or a crisis.

- 1. Detail:** The price of _____ tends to go up when the economy is in a slump.
- 2. Detail:** A lack of _____ in the economy often leads to lower _____ prices.
- 3. Detail:** When the price of oil _____ sharply, it is often a warning that difficult economic times are coming.

Summary and Reflection

Directions: Summarize the main ideas of the lesson by answering the questions below.

Suppose you inherit an apartment building from your uncle. You anticipate making some income from the rent on the 20 apartments in the building. Then you discover that the building is rent controlled—the government has put a ceiling on how much rent you can charge the tenants. When you examine the numbers, you realize that you are barely making any profit at all. The cost of property taxes, heating fuel, and repairs means you have almost nothing left over from the rent paid. Would you cut back on making repairs and keeping the building in a safe and livable condition? How might you keep the building in good shape and still turn a profit? Is it possible to manage the building or change it to make it both livable and profitable? Defend your answer.
