Guided Reading Activity

Prices

Lesson 1 How Prices Work

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Why Prices are Important

Main Idea: All products that are sold have a price. Prices are signals that act as incentives or disincentives for consumers to buy products.

- ______ value of a product. Price helps us make economic 1. Price is the ____
- 2. In a perfectly ______ in that they

favor neither the producer nor the consumer. Instead, prices represent ______ between

buyers and sellers.

3. In a market economy, prices are ______ and can change as conditions and resources

change.

4. Most people have known about prices their whole lives, so prices are _____ _____ and easy to

understand.

5. Prices are ______ because most products in a market economy find their own prices

without help from bureaucrats, committees, or other outside interference.

B. What If We Did Not Have Prices?

Main Idea: Prices set by the market are not subject to arbitrary criteria, but instead respond to supply and demand.

1. In times of crisis, the ______ may impose a system of ______ to make

sure that everyone gets their fair share of needed products.

2. Some of the problems with rationing include perceived ______, the cost of administration,

_____, and abuse and misuse. distorted ____

Guided Reading Activity cont.

Prices

C. Prices as a System

Main Idea: Prices are the best known and most efficient system for the allocation of goods and resources.

1. Because demand for gas is basically _____, when gas prices are

____, people spend a greater portion of their income on gas and have less money

to spend elsewhere.

2. High gas prices are an incentive to find adequate _____, such as biofuels. When

companies begin to develop new sources of energy, this may shift productive ____

to a new economic sector.

Summary and Reflection

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

Increasingly, people are buying more fuel-efficient cars that burn less gasoline per mile. This saves people money when gas prices are high for long periods of time. In response to this demand for fuel efficiency, automakers are manufacturing cars that get better mileage. Many automakers are even making cars that run on electric batteries and don't use gasoline at all. How has the price of gasoline acted as an incentive for consumers to demand a different type of car? How has it sparked innovation in the auto industry? How would you respond as a car buyer to the high price of gasoline?