

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.

1. Price is the _____ value of a product. Price helps us make economic _____.
2. In a perfectly _____ market economy, prices are _____ 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, distorted _____, and abuse and misuse.

