

# Markets, Equilibrium, and Prices

## ***How do you know when the price is “right”?***

### Speaking of Economics

As you complete the Reading Notes, use these terms in your answers:

market equilibrium	price floor
equilibrium price	price ceiling
equilibrium quantity	rationing
price controls	black market

### PREVIEW

Think of a product you recently purchased. In your notebook, record the name of the product and the approximate price you paid. Then answer these questions.

1. What are some reasons you were willing to buy the product at this price?
2. What are some reasons the seller was willing to sell the product at this price?
3. Do you think you paid the “right” price for this product? Why or why not?

### READING NOTES

#### **Section 2**

1. What happens at the point where buyers and sellers agree? Use these terms in your answer: *market equilibrium, equilibrium price, equilibrium quantity.*
2. Why do competitive markets move toward equilibrium?
3. Look at the balance scale in this section, which represents equilibrium. Create your own simple metaphor illustrating how demand and supply work together to create equilibrium. Label the following on your metaphor: *quantity demanded, quantity supplied, equilibrium point.*

#### **Section 3**

1. Create a flowchart that shows what happens when prices are set too low.
2. Create a flowchart that shows what happens when prices are set too high.
3. Why does the time it takes to reach equilibrium vary from market to market?

#### **Section 4**

Complete Notebook Handout to analyze how shifts in demand and supply affect equilibrium price.

**Section 5**

1. Identify the four roles prices play in a modern mixed economy. For each role,
  - write a one- or two-sentence summary that includes a specific example.
  - create a simple symbol that illustrates your summary.
2. Explain the roles of demand and supply in changing gasoline prices after Hurricanes Katrina and Rita.

**Section 6**

1. Complete a table like this one about the two types of price controls discussed in the section.

Price Control	Why Enacted	Example(s)	Economic Result

2. Create a simple drawing illustrating the difference between a price floor and a price ceiling. Include these terms in your drawing: *equilibrium price, price floor, price ceiling, shortage, surplus.*
3. Explain why a government might use rationing and what some effects of rationing could be.

**PROCESSING**

Choose a product that interests you. Then create three newspaper headlines announcing events that would affect the market for your product. One event should result in a shift in demand, one should result in a shift in supply, and one should set a price ceiling or price floor on the product. An example is given below.

- For each event, create a graph that shows the shift in the demand or supply curve and the change in equilibrium price and quantity.
- For each event, write two sentences explaining why the demand or supply curve shifted and how it affected the equilibrium price and quantity.
- Use your headlines and graphs to write a paragraph answering the Essential Question, *How do you know when the price is “right”?*

**MARKET FOR COFFEE**

**Headline: Surgeon General Reports Drinking Coffee Decreases Cholesterol**

*If people believe that coffee promotes health, the demand curve will shift to the right due to a change in tastes and preferences. This will result in an increase in the equilibrium price and an increase in the equilibrium quantity.*