

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? _____