



CHAPTER LEARNING OBJECTIVES

- 1. THE STUDENTS WILL BE ABLE TO DEFINE “ PRICES ” AND EXPLAIN THEIR EFFECT ON HELPING CONTROL A FREE MARKET ECONOMY**
- 2. THE STUDENTS WILL BE ABLE TO EXPLAIN HOW THE FREE MARKET CORRECTS ITSELF WHEN A STATE OF “ DISEQUILIBRIUM ” EXISTS**
- 3. THE STUDENTS WILL BE ABLE TO IDENTIFY THE 2 CATEGORIES OF GOVERNMENT INTERVENTION TO CONTROL PRICES AND EXPLAIN THE PURPOSE OF EACH USING EXAMPLES TO ILLUSTRATE**
- 4. THE STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE 6 ADVANTAGES OF A PRICE BASED SYSTEM**
- 5. THE STUDENTS WILL BE ABLE TO IDENTIFY AND EXPLAIN THE 3 POTENTIAL MARKET PROBLEMS WITH A PRICE BASED SYSTEM**
- 6. THE STUDENTS WILL BE ABLE TO DEFINE AND EXPLAIN, USING EXAMPLES TO ILLUSTRATE, THE CONCEPTS OF “ RATIONING ” AND THE “ BLACK MARKET ”**

WHAT IS “ PRICE ” ?



WHY DID I USE THE TERM RATIONING ?

WHAT IS “ DISEQUILIBRIUM ” ?

HOW DOES THE MARKET FIX THE DISEQUILIBRIUM PROBLEM ?

WHEN THE GOVERNMENT HELPS OR DECIDES TO “ RATION ” -

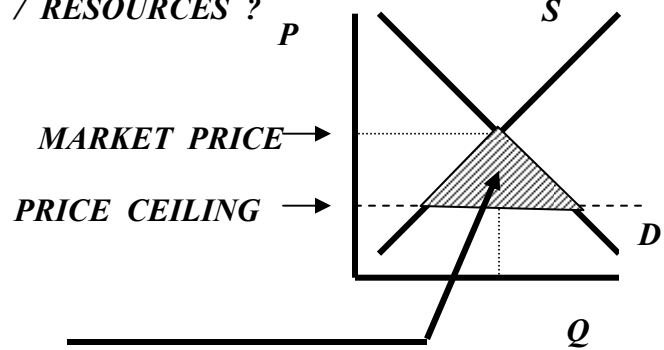
WHY WOULD THE GOVERNMENT BELIEVE THAT PRICE CONTROLS AND RATIONING IS NEEDED ? THE TWO MOST COMMON REASONS :

1.

2.

WHAT ARE THE 2 CATEGORIES OF GOVERNMENT INTERVENTION TO CONTROL PRICES OR RATION GOODS / RESOURCES ?

1. **“PRICE CEILING”** -



1.

2.

3.

DAMAGE DONE BY PRICE CEILINGS > RENT CONTROL EXAMPLE :

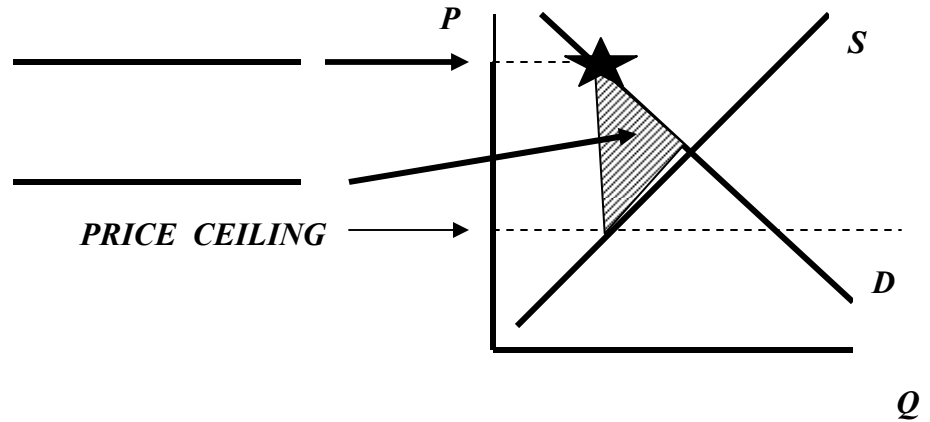
1.

2.

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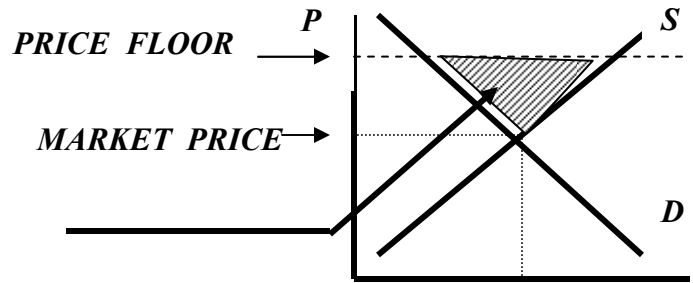


4. **“BLACK MARKET”** -



2. “PRICE FLOOR” -

1. “MINIMUM WAGE” -



DAMAGE DONE BY PRICE FLOORS > MINIMUM WAGE EXAMPLE : Q

1.

2.

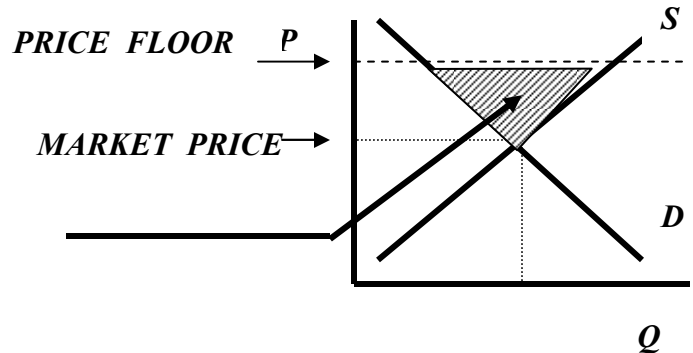
3.

4.

5.



2. “AGRICULTURE PRICE SUPPORTS” -



DAMAGE DONE BY AGRICULTURE SUBSIDIES :

1.

2.

3.

SUMMARY > THE THREE REASONS WHY RATIONING BY GOVERNMENT CONTROLS OVER PRICING NEVER WORKS :

1.

2.

3.

WHAT ARE THE 6 ADVANTAGES OF A PRICE BASED SYSTEM ?

1.

2.

3.

4.

5.

6.



THE 3 OCCASIONAL FREE MARKET PROBLEMS THAT COME UP WITH AN UNREGULATED PRICING SYSTEM > USUALLY CALLED MARKET FAILURE :

1. “IMPERFECT COMPETITION” -

2. “IMPERFECT INFORMATION” -

3. “SPILOVER COSTS” -

