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**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 ” -**

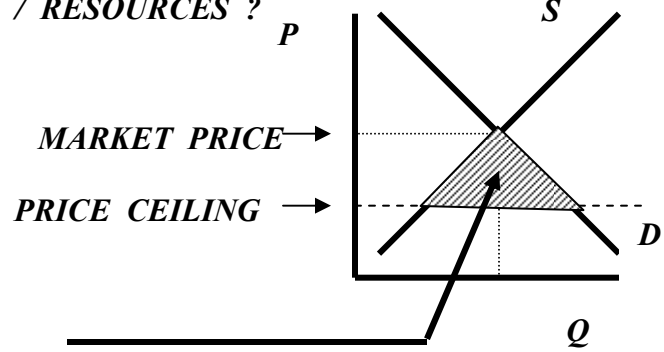
**WHY WOULD THE GOVERNMENT BELIEVE THAT PRICE CONTROLS AND RATIONING IS NEEDED ? THE TWO MOST COMMON REASONS :**

- 1.
- 2.

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

1. **“PRICE CEILING”** -

- 1.
- 2.
- 3.

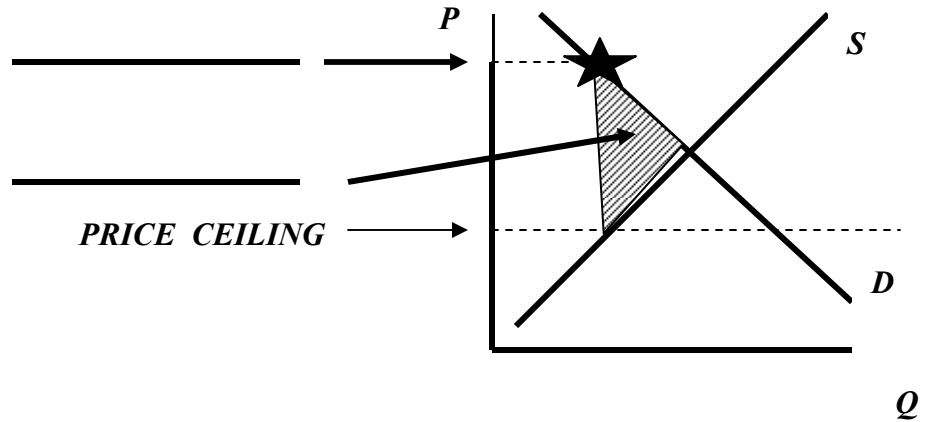


**DAMAGE DONE BY PRICE CEILINGS > RENT CONTROL EXAMPLE :**

- 1.
- 2.
- 3.

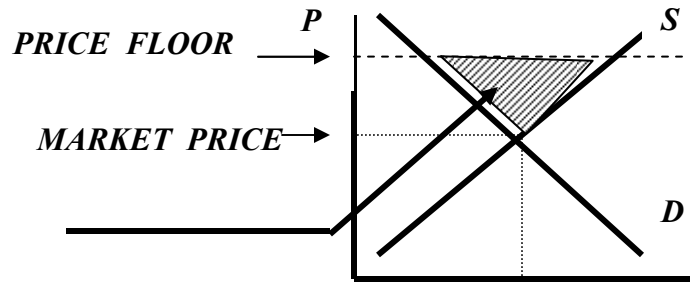


4. **“BLACK MARKET”** -



2. “PRICE FLOOR” -

1. “MINIMUM WAGE” -



*DAMAGE DONE BY PRICE FLOORS > MINIMUM WAGE EXAMPLE :*  $Q$

1.

2.

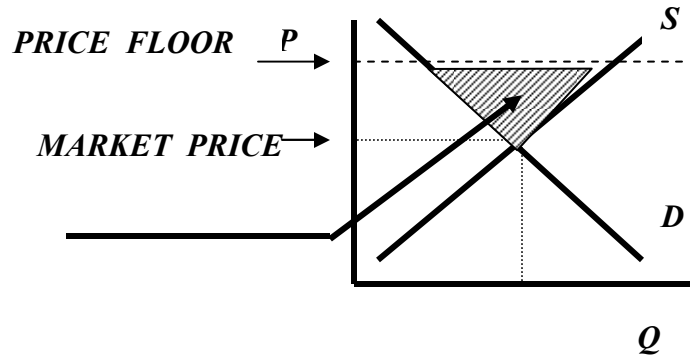
3.

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 ” -

