NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ PERIOD: \_\_\_\_\_\_\_ DATE: \_\_\_\_\_\_\_\_\_\_

**CHAPTER 6 STUDY GUIDE ECON**

**Directions:** Read each main idea, and then fill in the blanks in each statement. You can use your text book to help you.

 **LESSON 1 A. Why Prices are Important**

**Main Idea:** All products that are sold have a price. Prices are signals that are incentives or disincentives for consumers to buy products.

1. Price is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ value of a product and helps us make economic \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

2. In a perfectly \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy, prices are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in that they favor neither the producer nor the consumer.

3. In a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy, prices are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and can change as conditions and resources change.

4. People are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with the fact that products have prices, and a reasonable or sale price is often

 an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to consumers to purchase a product.

**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.

5. In times of crisis, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ may impose a system of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to make sure that everyone gets their fair share of needed products.

6. Some of the problems with rationing include perceived \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , the cost of administration, distorted \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , and abuse and misuse.

**C. Prices as a System**

 **Main Idea**: Prices are the best known and most efficient system for the allocation of goods and resources.

7. Because demand for gas is basically \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , when gas prices are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , people spend a greater portion of their income on gas and have less money to spend elsewhere.

8. High gas prices were an incentive to use plant-based \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , which shifted productive

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to a new economic sector.

**LESSON 2 A. How Prices Adjust**

**Main Idea:** Market prices adjust, or change, in response to changes in supply and demand. These price changes also change the incentives for buying or not buying a product. Furthermore, non-price factors can affect the supply of a product, and shortages often cause a rise in prices.

1. Some \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is necessary so that buyers and sellers reach a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on the price of a product.

2. In a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy, economic transactions are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , representing a compromise between buyers and sellers that benefits both parties.

3. The equilibrium price for an item is the point at which the quantity\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the item equals the

 quantity \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the item offered for sale.

4. The equilibrium quantity represents a situation in which the quantity \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is equal to the

 quantity demanded at the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ price.

5. When too much of a product is made, there is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that tends to make the price of the product

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

6. When there is too little of a product to meet demand, the resulting \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ leads to an

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in price.

**B. Why Prices Change**

 **Main Idea:** There are many factors in both supply and demand—such as weather, natural disasters, the state of the economy, consumer confidence, and others—that may cause prices to change.

7. The weather is a key factor that may change the supply of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ products, whose prices may

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ if the weather is unfavorable.

8. A natural disaster may severely lower the supply of a natural resource that is in high \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and

 this causes the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of that resource to increase dramatically.

9. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system is more efficient when markets are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

10. The free market and competition are aided by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, which limits monopolies and ensures the

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of consumer goods.

11. Competition in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ensures that resources are allocated \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Review Questions

Directions: Read each main idea, then fill in the blanks in each statement. You can use your text book to help you.

**LESSON 3 A. Controlling Prices**

**Main Idea:** Government policies can sometimes create shortages or surpluses that prevent prices from reaching equilibrium. These policies may be intended to more fairly allocate goods and services among the population, but regulating price stability has negative effects as well as positive ones.

1. In the U.S. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ free enterprise economy, the government may set \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at a particular level to achieve certain social goals.

2. The imposition of a price \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ may lead to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of products as manufacturers reduce production due to lower profits.

3. When government sets a price \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ , the product becomes more profitable to produce and a

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ may result.

**B. Examples of Fixed-Price Policies**

**Main Idea:** Price ceilings and floors are generally applied to products or resources that are essential for people to live. Price ceilings have been applied to rental housing to enable low-income people to have a home. Price floors are often applied to agricultural products to ensure that farmers can stay in business and continue to produce the food people need.

4. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ price floor is set by the government to stabilize farm prices.

5. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ loan from the government to a necessary producer does not have to be

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

6. Price ceilings set for rent control are typically \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and may not be high enough for

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to make a profit.

7. Too often, it requires \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ conditions before political parties and the president can agree

 enough to implements policies to achieve its economic and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ goals.

**C. When Markets Talk**

**Main Idea:** Markets talk through the actions of buyers and sellers of goods, and through the rising and falling of prices in reaction to changing conditions or a crisis.

8. The price of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ tends to go up when the economy is in a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

9. When investors have a lack of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the economy, it often leads to lower

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ prices.

10. When the price of oil increases sharply, that may indicate decreased \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and may indicate

economic \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.