CHAPTER 6

Planning Guide

Key to Ability Levels	
BL Below level	AL Above level
OL On level	ELL English Language Learners

Key to Teaching Resources	
Print Material	DVD
CD-Rom	Transparency

Levels BL	OL	AL	ELL	Resources		Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
FOCUS										
BL	OL	AL	ELL	Transparency	Daily Focus Skills Transparencies		25	13	26	
TEACH										
BL	OL		ELL	Print Material	Guided Reading Activities*		p. 16	p. 17	p. 18	
BL	OL	AL	ELL	Print Material	Economic Content Vocabulary Activities*		p. 6	p. 6	p. 6	
	OL	AL		Print Material	Critical Thinking Activities		pp. 6, 11	p. 11		
BL	OL		ELL	Print Material	Reading Essentials and Note-Taking Guide*		p. 46	p. 49	p. 52	
		AL		Print Material	Enrichment Activities			p. 6		
BL	OL	AL	ELL	Print Material	Hands-On Economics			p. 5		
BL	OL	AL	ELL	Transparency	Economic Concepts Transparencies, Strategies, and Activities			pp. 13, 15		
BL	OL	AL	ELL	Print Material	Math Practice for Economics		p. 8	p. 8		
BL	OL	AL	ELL	Transparency	Economics Forms and Financial Pages Transparencies, Strategies, and Activities			p. 15		
BL	OL	AL	ELL	Print Material	Reinforcing Economic Skills			p. 4		
BL	OL		ELL	Print Material	High School Reading in the Content Area Strategies and Activities	✓	✓	✓	✓	✓
BL	OL	AL	ELL	Transparency	High School Writing Process Transparencies	✓	✓	✓	✓	✓
BL	OL	AL	ELL	Print Material	Writer's Guidebook	✓	✓	✓	✓	✓
BL	OL	AL	ELL	CD-Rom	StudentWorks Plus CD-ROM	✓	✓	✓	✓	✓
BL	OL	AL	ELL	CD-Rom	Vocabulary PuzzleMaker CD-ROM	✓	✓	✓	✓	✓

*Also available in Spanish

TeacherWorks Plus — All-In-One Planner and Resource Center

- Interactive Lesson Planner
- Interactive Teacher Edition
- Fully editable blackline masters
- Economics & You videos
- Differentiated Lesson Plans
- Printable reports of daily assignments
- Standards tracking system

Levels BL	OL	AL	ELL	Resources	Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
TEACH *(continued)*									
BL	OL	AL	ELL	Economics & You Video Program DVD—*The Price System at Work*	✓	✓	✓	✓	✓
BL	OL	AL	ELL	Graph Coach CD-ROM	✓	✓	✓	✓	✓
Teacher Resources				Differentiated Instruction Strategies	✓	✓	✓	✓	✓
				Success with English Learners	✓	✓	✓	✓	✓
				Presentation Plus! CD-ROM	✓	✓	✓	✓	✓
ASSESS									
BL	OL	AL	ELL	Section Quizzes and Chapter Tests		p. 69	p. 70	p. 71	pp. 73, 77
BL	OL	AL	ELL	Authentic Assessment Strategies and Activities				p. 9	
BL	OL	AL	ELL	*ExamView® Assessment Suite* CD-ROM		6-1	6-2	6-3	Ch. 6
BL	OL	AL	ELL	Interactive Tutor Self-Assessment CD-ROM		6-1	6-2	6-3	
CLOSE									
BL			ELL	Reteaching Activities*		p. 6	p. 6	p. 6	
BL	OL		ELL	Reading and Study Skills Foldables		p. 53	p. 48	p. 53	

*Also available in Spanish

Activity: Using the McGraw-Hill Learning Network

Researching World Book™ Select

Technology Product

World Book Select offers thousands of detailed articles chosen from the *World Book Encyclopedia* and covers all curricular areas. World Book Select allows students to research national and international topics and issues in economics and other curriculum areas.

Objectives

After students learn to use World Book Select, they will be able to

- develop and expand research and study skills;
- practice reading and writing skills.

Steps

Give students the following directions to use World Book Select:

- From the McGraw-Hill Learning Network home page (www.mhln.com), click on **For Students.**
- Choose **World Book Select** below **Homework Help.**
- Click the letter for the encyclopedia volume you want to use.
- On the search page for the volume selected:
  - click the title of a featured article on the right side of the page; or
  - click on a topic from the list on the left side of the page; then click on the title of an article of interest on the right.
- Read the article and take notes.

Economics ONLINE

	Student	Teacher	Parent
Beyond the Textbook	●	●	●
Chapter Overviews	●	●	●
ePuzzles and Games	●		●
Concepts in Motion	●		●
Multi-Language Glossaries	●		●
Online Student Edition	●	●	●
Self-Check Quizzes	●		●
Student Web Activities	●		●
Study Central™	●		●
Time Current Events	●	●	●
Teaching Today		●	
Vocabulary eFlashcards	●		●
Web Activity Lesson Plans		●	

Glencoe Media Center

- glencoe.com

Study-To-Go

- Vocabulary eFlashcards
- Self-Check Quizzes

Audio/Video

- Student Edition Audio
- Spanish Summaries
- Economics & You Videos

Additional Chapter Resources

Reading Support From Jamestown Education

- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English.
www.jamestowneducation.com

Reading List Generator CD-ROM — Glencoe BookLink 3

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students' reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

Leveled reading suggestions for this chapter:

For students at a Grade 10 reading level:
- ***How Do They Package It?,*** by George Sullivan

For students at a Grade 11 reading level:
- ***The World of Power and Energy,*** by Frank Ross

For students at a Grade 12 reading level:
- ***Food, Inc.: Mendel to Monsanto—The Promises and Perils of the Biotech Harvest,*** by Peter Pringle

*** Review suggested books before assigning them.**

NCEE

National Council on Economic Education

Voluntary Standards Emphasized in Chapter 6

Content Standard 4 People respond predictably to positive and negative incentives.

Content Standard 7 Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

Content Standard 8 Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

Content Standard 17 Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Resources Available from NCEE

- Virtual Economics®: An Interactive Center for Economic Education Version 3.0
- Capstone: The Nation's High School Economics Course
- Focus: High School Economics, Second Edition
- Advanced Placement Economics: Teacher Resource Manual, Third Edition

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at store.ncee.net.

The BIG Ideas

As students study the chapter, remind them to consider the chapter-based Big Ideas. The **Essential Question** in the chapter launch activity below ties in to the Big Ideas and helps students think about and understand important chapter concepts. In addition, the Hands-On Chapter Project relates the content from each section to the Big Ideas. The steps in each section build on each other and culminate in the Wrap-Up Activity on the Visual Summary page.

Economics & You Video To generate student interest and provide a springboard for class discussion, access the Economics & You Topic 11 video, **The Price System at Work,** at glencoe.com or on the video DVD.

FOLDABLES Study Organizer

Dinah Zike's Foldables are three-dimensional, interactive graphic organizers that help students practice basic writing skills, review key vocabulary terms, and identify main ideas. Have students complete this chapter's Foldable activity or activities in *Dinah Zike's Reading and Study Skills Foldables* booklet. **OL**

Economics ONLINE

Introduce students to chapter content and key terms by having them access *Chapter 6—Chapter Overviews* at glencoe.com.

CHAPTER 6

Prices and Decision Making

Why It Matters

Have you ever wondered why famous athletes and entertainers make millions of dollars each year? Imagine that you are one of these athletes or entertainers and will be interviewed on a major television program. Knowing that the interviewer will ask you why you make so much money, prepare a list of 5 to 10 reasons that explain why you are worth your salary. Read Chapter 6 to learn about how economic systems allocate goods and services.

The BIG Ideas

1. Markets exist when buyers and sellers interact, and market prices are set by the interaction of demand and supply.
2. Governments strive for a balance between the costs and benefits of their economic policies to promote economic stability and growth.

Every day prices help buyers make decisions about the quantities of goods and services they buy.

Economics ONLINE **Chapter Overview** Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on *Chapter 6—Chapter Overviews* to preview chapter information.

Activity: Launching the Chapter

Categorizing Have students make a list of the goods and services they have purchased over the past week. Next, ask them to list the factors they believed affected the prices of the items they bought. **Essential Question:** **How might the government have influenced the prices of items you bought during the last week?** *(Possible answers: government funds reduced the price of school lunches; a recent increase to the minimum wage caused a local pizza restaurant owner to raise the price of pizza.)* Organize the class into pairs. Have each pair interview a local business owner about the factors that influence the prices of certain items he or she sells. Ask students to present the results of their interviews to the class. **OL**

SECTION 1

Prices as Signals

GUIDE TO READING

Section Preview

In this section, you will learn that prices act as signals that help us allocate scarce resources.

Content Vocabulary

- price *(p. 143)*
- rationing *(p. 145)*
- ration coupon *(p. 145)*
- rebate *(p. 146)*

Academic Vocabulary

- neutral *(p. 144)*
- criteria *(p. 145)*

Reading Strategy

Explaining As you read the section, complete a graphic organizer similar to the one below by explaining the advantages of prices.

PRODUCTS IN THE NEWS

–New Orleans Times-Picayune

Katrina Fallout

The local real estate market soared after Hurricane Katrina, with home prices recording double-digit increases and the number of sales remaining surprisingly strong. . . .

During the final four months of 2005—the months after Katrina—the average sale price in the metropolitan area was $215,769, or 21 percent higher than the average price of all homes sold in 2004. . . .

The strong real estate figures send the clearest signal yet that the New Orleans housing market is not dead. In fact, they might make the city more appealing than ever to national investors . . . looking to snatch up bargain properties they can sell down the road for a profit. ■

Life is full of signals that help us make decisions. For example, when we pull up to an intersection, we look to see if the traffic light is green, yellow, or red. We look at the other cars to see if any have their blinkers on, signaling their intentions to turn. While these are clear and obvious signals, there are other, more hidden ones. Pain, for example, signals you that something is wrong with your body. But have you ever thought about signals in economics?

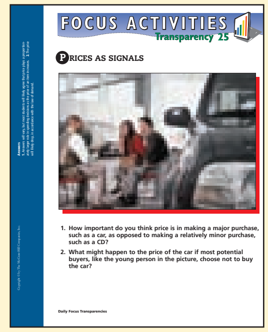
It turns out that something as simple as a **price**—the monetary value of a product as established by supply and demand—is a signal that helps us make economic decisions. Prices give information to buyers and sellers. High prices signal buyers to buy less and producers to produce more. Low prices signal buyers to buy more and producers to produce less. Even housing prices, as we read in the news story above, send signals.

price monetary value of a product as established by supply and demand

Focus

Bellringer

Daily Focus Transparency 25



GUIDE TO READING

Answers to Graphic: neutral; flexible; familiar and easy to understand; no cost of administration

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
Teacher Edition • Inferring, p. 145 **Additional Resources** • Guid. Read. Act., p. 16 • Reading Ess. & Note-Taking Guide, p. 46	**Teacher Edition** • Speculating, p. 146 • Theorizing, p. 147 **Additional Resources** • Crit. Think. Act., pp. 6, 11	**Teacher Edition** • Adv. Learners, p. 145 **Additional Resources** • Math Prac. for Econ., p. 8 • Reading and Study Skills Fold., p. 53	**Teacher Edition** • Descriptive Writing, p. 144 • Personal Writing, p. 147 **Additional Resources** • Writer's Guidebook	**Teacher Edition** • Analyzing Info., p. 144 **Additional Resources** • Reteach. Act., p. 6 • Econ. Content Vocab. Act., p. 6

Teach

W Writing Support

Descriptive Writing Have students consider how their lives would be different if they lived in a society in which prices did not exist. Ask them to write a short story describing this fictional society. Tell students that they should include in their stories how the society addresses the questions of WHAT, HOW, and FOR WHOM. **OL**

S Skill Practice

Analyzing Information

Ask: How do you think the profit margin for laptops sold in 2000 differed from the profit margin for laptops sold in 2006? *(Profit margin per unit sold was much higher in 2000 than in 2006.)* What was the reason for that difference? *(Laptop prices were much higher in 2000 than in 2006.)* **OL**

✓Reading Check Answer: People make purchasing decisions based on prices; this results in the allocation of goods and services.

Advantages of Prices

MAIN Idea Prices help the economy run smoothly by providing a good way to allocate resources.

Economics & You Have you ever seen news reports about rising prices for building materials after a hurricane? Read on to learn how the price system helps us deal with natural disasters.

W Prices help producers and consumers decide the three basic questions of WHAT, HOW, and FOR WHOM to produce. Without prices, the economy would not run as smoothly, and allocation decisions would have to be made some other way. Prices perform this function well for several reasons.

First, in a competitive market economy, prices are **neutral** because they favor neither the producer nor the consumer. Since prices are the result of competition between buyers and sellers, they represent compromises that both sides can live with.

Second, prices in a market economy are flexible. Unforeseen events such as natural disasters and war affect the prices of many items. Buyers and sellers then react to the new level of prices and adjust their consumption and production accordingly. Before long, the system functions as smoothly again as it had before. The ability of the price system to absorb unexpected "shocks" is one of the strengths of a market economy.

Third, most people have known about prices all their lives. As a result, prices are familiar and easy to understand. There is no ambiguity over a price—if something costs $1.99, then we know exactly what we have to pay for it. This allows people to make decisions quickly and efficiently, with a minimum of time and effort.

Finally, prices have no cost of administration. Competitive markets tend to find their own prices without outside help or interference. No bureaucrats need to be hired, no committees formed, no laws passed, or other decisions made. Even when prices adjust from one level to another, the changes are usually so gradual that people hardly notice.

✓Reading Check Summarizing In what way do prices perform the allocation function?

S

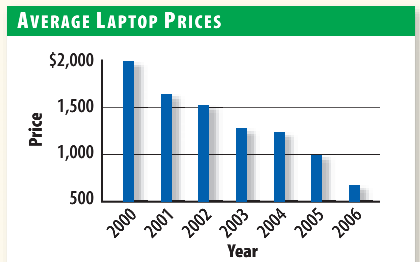
The Global Economy & YOU

Mobility on the Cheap

Americans are constantly in motion. The popularity of cell phones and laptop computers illustrates this point. Luckily for on-the-go consumers, the prices of these mobile products are falling. The average cost of a laptop in 2000 was more than $2,000. Each year, the average price has dropped by several hundred dollars.

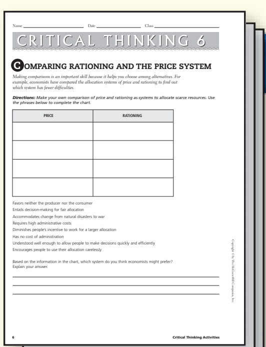
Competition has played the biggest role in the downward spiral of profits for laptop makers. In 2006, the profit margin for most laptops was only $50. This meager profit means that manufacturers are aiming for high sales volume rather than high profit margins. They are also counting on consumers to spend more on expensive accessories, such as service plans, docking stations, and batteries.

How does this competitive market impact you? Consumers can expect lower prices and a wider selection. In addition, the competition ensures innovation, as manufacturers search for the gadget or accessory that none of us can do without.



Source: *The Wall Street Journal.*

Differentiated Instruction



Critical Thinking Activities, p. 6

Comparing Rationing and the Price System

Objective: Understand the differences between the price system and the rationing system.

Focus/Teach: Ask students to describe how people acquire goods in a price system and in a rationing system. Then have them complete the activity.

Assess: Call on volunteers to share their answers.

Close: Have students write two paragraphs summarizing the characteristics of the price system and those of the rationing system.

Differentiated Instruction Strategies

BL Have students explain how a person acquires a good under the rationing system.

AL Have students add a phrase to each column in the chart.

ELL Ask students to look up the word *ration* in a dictionary and then write a sentence using that word.

Allocations Without Prices

MAIN Idea Rationing has disadvantages that are not present in the price system.

Economics & You How would you allocate goods like cars or food if there were no prices? Read on to learn about the problems associated with other systems.

Prices help us make the everyday economic decisions that allocate scarce resources. But what would life be like without a price system? Would intelligence, good looks, or even political connections determine the allocations?

These **criteria** may seem far-fetched, but this happens in countries with command economies. When the Baltimore Orioles played an exhibition baseball game in Cuba several years ago, there were not enough stadium seats for the local baseball fans who wanted to attend. Fidel Castro then solved the FOR WHOM questions by giving the seats to Communist Party members—whether or not they were baseball fans.

Rationing This clerk in a grocery store in Cuba accepts ration coupons as payment for the products people are buying. ***How are ration coupons allocated?***

Rationing

Without prices, another system must be used to decide who gets what. One method is **rationing**—a system under which a government agency decides everyone's "fair" share. Under such a system, people receive a **ration coupon**, a ticket or a receipt that entitles the holder to obtain a certain amount of a product. The coupon can be given to people outright, or the government can charge a modest fee that is less than the product's market value. Rationing has been widely used during wartime, but it can lead to problems.

Problems with Rationing

The first problem with rationing is that almost everyone feels his or her share is too small. During the energy crisis of the early 1970s, the government made plans for, but never implemented, gasoline rationing. One problem was determining how to allocate the rationing coupons in a way that everyone would see as fair. A number of ways to allocate gas coupons were debated, but the issue of fairness was never resolved.

A second problem is the administrative cost of rationing. Someone must pay the salaries and the printing and distribution costs of the coupons. In addition, no matter how much care is taken, some coupons will be stolen, sold, or counterfeited and used to get a product intended for someone else.

A third problem is the negative impact on the incentive to produce. What if you were paid with ration coupons and you received the same number of coupons as your coworkers? Without the possibility of earning more coupons, you might lose some of your incentive to work.

✓**Reading Check** **Contrasting** What are the differences between the price system and rationing?

rationing system of allocating goods and services without prices

ration coupon permit allowing holder to receive a given amount of a rationed product

Skills Handbook
See page **R43** to learn about ***Comparing and Contrasting.***

R Reading Strategy

Inferring **Ask:** What types of governments do you think are most likely to make allocations based on rationing? Why? *(totalitarian; those governments generally control purchasing decisions)* **OL**

D Differentiated Instruction

Advanced Learners Have students use print or online resources to research a time in U.S. history when the government implemented rationing. Ask students to write a paper on the topic they selected. **AL**

Caption Answer: The government decides what is "fair."

✓**Reading Check** **Answer:** Price system: people make their own purchasing decisions based on the prices of goods and services. Rationing system: government agency decides what and how many goods and services people will receive.

Hands-On Chapter Project
Step 1

Evaluating Prices

In this project, students will set and evaluate the prices of cookies that they will bake and sell.

Step 1: Setting Prices. Students will set prices for cookies based on their estimates of production costs and potential demand.

Directions: Organize the class into four groups. Assign one of the following cookie types to each group: chocolate chip, peanut butter, sugar, and oatmeal raisin. Ask each group to research what it would cost them to produce four dozen of their assigned cookies for a class bake sale. Remind students to include advertising expenses (such as posters and markers) as well as the cost of ingredients when making their calculations. Next, have student groups evaluate the potential demand for their cookie (for example, they could poll students at their school to determine the level of interest in their assigned cookie type).

Summarizing Direct each group to synthesize the information they have gathered about production costs and potential demand to determine a price for their cookie that they believe will yield a profit. **OL**

(Chapter Project continued in Section 2.)

C Critical Thinking

Speculating **Ask:** How do you think the actions of automakers would have been different if oil prices had dropped between 2005 and 2006? *(Students will likely say that SUVs would have continued to sell, so changes in price and production would not have occurred.)* **OL**

✓Reading Check **Answer:** Price increases in a certain market lower demand, which causes manufacturers to shift resources to more profitable markets.

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 1, and then assign the Section 1 Review as homework or as an in-class activity.

Close

Categorizing Have students create a chart that categorizes the different functions that prices perform. **OL**

SECTION 1 Review

rebate partial refund of a product's original price

Prices as a System

MAIN Idea Prices connect all markets in an economy.

Economics & You Have you noticed ads for rebates on SUVs when gas prices soar? Read on to learn how these rebates are one way in which prices allocate resources between markets.

Because of the difficulties with nonprice allocation systems, economists overwhelmingly favor the price system. In fact, prices do more than help individuals make decisions: they also serve as signals that help allocate resources between markets.

Consider the way in which higher oil prices affected producer and consumer decisions when the price of oil went from under $35 to over $70 a barrel in 2005 and 2006. Because the demand for oil is basically inelastic, people spent a greater part of their income on energy. Higher energy costs left them with less to spend elsewhere.

The SUV market was one of the first to feel the effects of high prices. Because most of these vehicles got poor gas mileage, people bought fewer SUVs, leaving dealerships with huge inventories. To move these inventories, some manufacturers offered consumers a **rebate**—a partial refund of the original price of the product. The rebate was the same as a temporary price reduction, because consumers were offered thousands of dollars back on each new car they bought. Other dealers offered zero-interest financing.

C Finally, automakers had to reduce their production of these vehicles. Ford Motor Company, for example, closed plants, laid off workers, and tried to sell more fuel-efficient cars. Many automobile workers who lost their jobs eventually found new ones in other industries. In the end, the result of higher international oil prices was to shift productive resources out of SUV production into other products. Although the adjustment process was painful for many in the industry, it was a natural and necessary shift of resources for a market economy.

In the end, prices do more than convey information to buyers and sellers in a market: they also allocate resources between markets. This is why economists think of prices as a "system"—part of an informational network—that links all markets in the economy.

✓Reading Check **Identifying** How do prices allocate resources between markets?

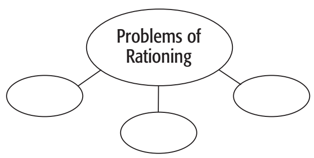
SECTION 1 Review

Vocabulary

1. **Explain** the significance of price, rationing, ration coupon, and rebate.

Main Ideas

2. **Describing** What are the advantages of prices?
3. **Identifying** Use a graphic organizer like the one below to identify the problems associated with rationing.



4. **Explaining** Why are prices an efficient way to allocate goods and services?

Critical Thinking

5. **The BIG Idea** Describe how prices help allocate scarce resources by answering the questions of WHAT, HOW, and FOR WHOM to produce.
6. **Analyzing Visuals** Look at the photograph on page 145. What effect does rationing seem to have on the number and variety of items in the store?
7. **Understanding Cause and Effect** Assume that there is a gasoline shortage and your state has imposed rationing. Write a paragraph about how this might affect you, your family, and your community.

Applying Economics

8. **Rationing** List five items you would like to buy. How does the price of each item affect your decision to allocate scarce resources—your money and your time?

Answers

1. All definitions can be found in the section and the Glossary.
2. Prices favor neither the producer nor the consumer; prices are flexible; people are familiar with prices; prices have no administrative cost.
3. almost everyone wants a larger share; high administrative cost; declining incentive to produce
4. They have no administrative costs and competitive markets tend to find their own prices without outside help or interference.
5. Prices tell manufacturers what to produce by indicating which products they can sell at a profit. The price producers have to pay for resources guides their decisions about how to produce items. The willingness of people to buy an item at a certain price answers the "for whom" question of production.
6. Answers may vary, but students should recognize that the number and variety of items in the store appear limited.
7. Students' paragraphs should demonstrate an understanding of how a rationing system functions and the problems that could potentially result.
8. Students should present economically sound evaluations of how the prices of their listed items affect their decisions regarding the allocation of their scarce resources of money and time.

CASE STUDY

'I Bought It on eBay'

The World's Online Marketplace

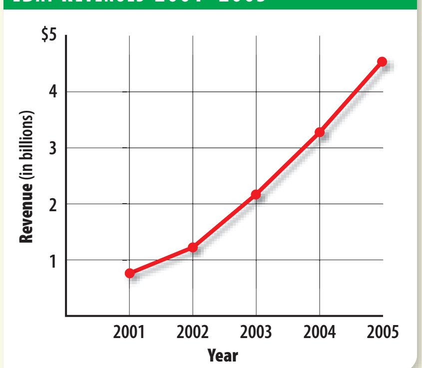
Since its introduction in 1995, eBay has given rise to the phrase "I bought it on eBay." Buyers and sellers flock to the online auction site to bid on and sell everything from snow and math tutoring to collectibles and used cars.

The Perfect Price

The site serves as an online forum where supply meets demand in a seamless process. Sellers enjoy the advantages of a huge customer base and little overhead. They also have the option to list a "reserve," or minimum price. All of these features help maximize profits. Buyers appreciate the ability to browse millions of items, shop from home, and counter-offer with their own bid. **W**

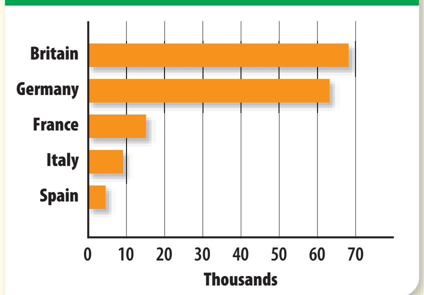
Because eBay does not produce, sell, or distribute any of the products offered on its Web site, it makes money by charging a modest listing fee and commission for each item sold. In 2005 the number of registered eBay members topped 100 million, including potential buyers in more than 30 countries.

EBAY REVENUES' 2001–2005



Source: moneycentral.msn.com

EUROPEANS EARNING AT LEAST 25% OF THEIR INCOME FROM EBAY BUSINESS



Source: eBay Inc.

To some members, eBay is a great place to sell an item they no longer need or want, such as a baby stroller or CD. For others, eBay has turned from a hobby into a career. In 2005 more than 700,000 people in the United States earned full- or part-time income on eBay. Many sellers in Europe—especially Britain and Germany—also rely on eBay to make money. **C**

eBay Express

In 2006 eBay faced serious competition from Google and Yahoo for a larger share of the e-commerce market. The company's response was eBay Express, which allows shoppers to purchase products immediately without waiting a week for an auction to close. The hope is that a brand new audience will tap into the eBay experience.

Analyzing the Impact

1. **Summarizing** How is price determined for an item on eBay?
2. **Explaining** What change did eBay make to attract more shoppers?

CASE STUDY

Focus

W Writing Support

Personal Writing Have students visit eBay and search for an item that they may be interested in buying. Ask students to write an essay on their thoughts about eBay. Encourage them to include what they like about eBay and any concerns that they may have about the process. **OL**

Teach

C Critical Thinking

Theorizing **Ask:** **How could a person use eBay to run a profitable business?** *(Possible answer: Buy items at garage sales, and then resell them on eBay at a higher price.)* **OL**

Analyzing the Impact

Answers:

1. bids from competing buyers
2. It started eBay Express, which allows shoppers to buy products immediately.

Additional Support

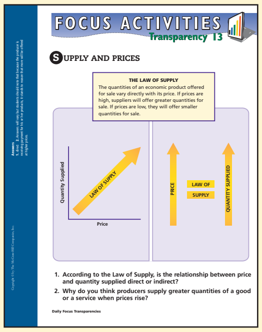
Extending the Content

Customer Satisfaction With Online Auctions Many people thinking about selling or purchasing an item through eBay may have concerns about fraud or other problems with the transaction process. The results of a recent national survey may assuage some of their fears. According to a poll by the University of Michigan and ForeSee Results, customer satisfaction with online auctions stood at 78 percent in 2006. eBay led all companies in that category with an 80 percent satisfaction rating. Customer satisfaction with e-commerce overall—including online retail, auction, brokerage, and travel companies—was at 80 percent. To compare, customer satisfaction with the traditional offline retail sector was more than five points lower at 74.4.

Focus

Bellringer

Daily Focus Transparency 13



GUIDE TO READING

Answers to Graphic:

Surplus/Effects: prices fall until demand increases and supply is reduced

Shortage/Effects: prices increase until demand falls and supply can increase

SECTION 2

The Price System at Work

GUIDE TO READING

Section Preview

In this section, you will learn how economic models help us understand prices in competitive markets.

Content Vocabulary

- economic model *(p. 149)*
- equilibrium price *(p. 149)*
- surplus *(p. 150)*
- shortage *(p. 151)*

Academic Vocabulary

- voluntary *(p. 149)*
- fluctuates *(p. 153)*

Reading Strategy

Describing As you read the section, complete a graphic organizer similar to this by describing how a surplus and a shortage affect prices, demand, and supply.

Surplus → Effects

Shortage → Effects

COMPANIES IN THE NEWS

—adapted from *The Miami Herald*

Want Prime Seats? Get Ready to Bid

Bids on the best seats in the house for Madonna's concert . . . could start at the face-value price of $350. Do I hear $450? Going once, going twice . . . Sold! To the person online.

Tired of competition from scalpers, Ticketmaster and its clients are now auctioning "premium seats" to concerts, sports meets, and other events. The practice, dubbed "dynamic pricing," allows customers to set their own prices. Competitors see it differently, saying the practice allows Ticketmaster to scalp its own tickets. (Scalping is a second-degree misdemeanor under Florida state law, punishable by up to 60 days in jail and a $500 fine.)

. . . Dynamic pricing endorses a free market economic principle: namely, that the market determines the fair value of a ticket. ■

One of the most appealing features of a competitive market economy is that everyone who participates has a hand in determining prices. This is why economists consider prices to be neutral and impartial.

The process of establishing a price, as you read in the news story above, can be complicated—or even contentious—because buyers and sellers have exactly the opposite hopes and desires. Buyers want to find good buys at low prices. Sellers hope for high prices and large profits. Neither can get exactly what they want, so some adjustment is necessary to reach a compromise.

Will consumers pay too much for tickets? Most economists would argue that as long as the process is competitive and the transaction voluntary, then the price will be about right under a bidding system.

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
Teacher Edition • Academic Vocab., p. 149 • Outlining, p. 152 **Additional Resources** • Guid. Read. Act., p. 17 • Reading Ess. & Note-Taking Guide, p. 49 • Enrichment Act., p. 6	**Teacher Edition** • Ident. POV, p. 150 • Det. Cause/Effect, p. 151 • Interpreting, p. 154 • Assessing, p. 155 **Additional Resources** • Econ. Concepts Trans., Strat. and Act., pp. 13, 15	**Teacher Edition** • Verbal/Linguistic, p. 150 • ELL, p. 153 **Additional Resources** • Econ. Forms and Financial Pages Trans., Strat. and Act., p. 15 • Crit. Think. Act., p. 11 • Daily Focus Trans. 13, 14	**Teacher Edition** • Narrative Writing, p. 152 **Additional Resources** • High School Writing Process Trans. • Reading and Study Skills Fold., p. 48	**Teacher Edition** • Evaluating Info., p. 149 • Analyzing Cartoons, p. 151 **Additional Resources** • Reinforcing Econ. Skills, p. 4 • Hands-On Econ., p. 5 • Math Prac. for Econ., p. 8

The Price Adjustment Process

MAIN Idea In a market economy, prices seek their own equilibrium.

Economics & You You learned earlier that the price system is flexible. Read on to find out how prices adjust to changes in the economy.

Because transactions in a market economy are **voluntary,** the compromise that settles the differences between buyers and sellers must be to the benefit of both, or the compromise would not occur.

R

A Market Model

To show how the adjustment process works, we use the supply and demand illustration shown in **Figure 6.1**—one of the more popular "tools" used by economists. The figure illustrates how we can use an **economic model** to analyze behavior and predict outcomes.

The data in the figure show the demand for and supply of CDs at various prices. You are already familiar with these numbers, because they are the same ones you saw when you learned about demand in Chapter 4 and supply in Chapter 5. **Panel A** combines information from the market demand schedule in Figure 4.2 on page 94 and the market supply schedule in Figure 5.2 on page 119. **Panel B** shows both the market demand curve and the market supply curve, again from those two earlier figures.

Separately, each of these graphs represents the demand or supply side of the market. When the curves are combined, we have a complete model of the market, which will allow us to analyze how the interaction of buyers and sellers results in a price agreeable to all market participants.

Note that the supply and demand curves intersect at a specific point. This point is called the **equilibrium price**, the price at which the number of units produced equals the number of units sold. It means that at this price there is neither a surplus nor a shortage of the product in the market. But how does the market reach this equilibrium price, and why does it settle at $15 rather

economic model a simplified version of a complex behavior expressed in the form of an equation, graph, or illustration *(also see page 23)*

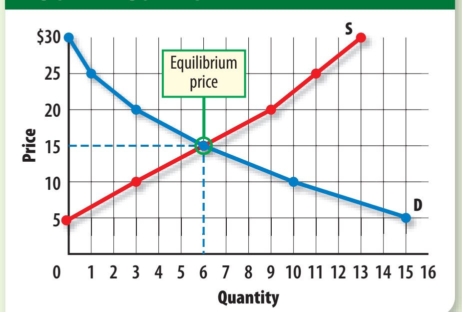
equilibrium price price where quantity supplied equals quantity demanded

Figure 6.1 ▶ Market Equilibrium

A Market Demand and Supply Schedules

Price	Quantity demanded	Quantity supplied	Surplus/ shortage
$30	0	13	13
25	1	11	10
20	3	9	6
15	6	6	0
10	10	3	–7
5	15	0	–15

B Market Demand and Supply Curves



S

▶ The schedules provide the quantities demanded and the quantities supplied at different prices. The last column lists the surpluses or shortages at each price. When the demand and supply at each price are plotted, they show that the curves intersect at a price of $15. This is the equilibrium price.

Economic Analysis ***Why is the equilibrium price important?***

CHAPTER 6, SECTION 2

Teach

R Reading Strategy

Academic Vocabulary
Have students write a paragraph explaining why the actions of buyers and sellers in a market can be considered voluntary. *(Answers will vary but should include that no one is forcing buyers or sellers to buy/sell items.)* **BL**

S Skill Practice

Evaluating Information Have students compare data in the graph with their knowledge of current CD prices. **Ask:** **How realistic is the graph in reflecting the current CD market?** *(Answers will vary but may include that the graph is realistic in that CD prices generally hover around $15. CDs at $30 would not sell well, whereas there would be increased demand for CDs priced at $5.)* **OL**

Economic Analysis
Answer: It is the price at which there is neither a surplus nor a shortage of a given product.

Additional Support

Activity: Interdisciplinary Connection

Mathematics Supply and demand curves can be written as equations. Have your students graph the following equations on graph paper (with *P* on the vertical axis and *Q* on the horizontal axis).

- Supply: P = 14 – 2Q
- Demand: P = 2 + Q

Ask students to find the equilibrium price *P* and quantity *Q*. Next have them find the equilibrium price and quantity algebraically by solving the two equations for *P* and *Q*. *(P = 6, Q = 4)* **OL**

Teacher Tip

Reviewing Equations Before beginning this activity, take a few moments to review with students the elements of an equation and how to solve it.

C Critical Thinking

Identifying Points of View

Ask: Do you think it is common for sellers to offer a new product at a price well above what turns out to be the equilibrium price? Why or why not? *(Answers will vary. Students responding "yes" may reason that sellers, wanting to maximize profits, will sell a product at as high of a price that buyers are willing to pay. If the initial price turns out to be too high, sellers can always lower it later.)* **OL**

D Differentiated Instruction

Verbal/Linguistic Have students reflect upon the items they have purchased in their lifetimes. Ask them to identify a product that, although too expensive when it first came out, they were able to afford after the price eventually dropped. Have students write and deliver a short oral report describing the experience. **OL**

Economic Analysis

Answer: Sellers set the price at a level higher than buyers were willing to pay.

Additional Support

surplus situation where quantity supplied is greater than quantity demanded at a given price

Skills Handbook

*See page **R53** to learn about **Comparing Data**.*

than some other price? To answer these questions, we have to examine the reactions of buyers and sellers to different market prices. When we do this, we assume that neither the buyer nor the seller knows the final price, so we'll have to find it using trial and error.

Surplus

We start on Day 1 with sellers thinking that the price will be $25. If you examine the supply schedule in Panel A of Figure **C** 6.1, you see that suppliers will produce 11 units for sale at that price. However, the suppliers soon discover that buyers will purchase only one CD at a price of $25, leaving a surplus of 10.

A **surplus** is a situation in which the quantity supplied is greater than the quantity demanded at a given price. The 10-unit surplus at the end of Day 1 is shown in column four of Panel A in Figure 6.1 as the difference between the quantity supplied and the quantity demanded at the $25 price. It is also shown graphically in **Panel A** of **Figure 6.2** as the horizontal distance between the supply and demand curves at a price of $25.

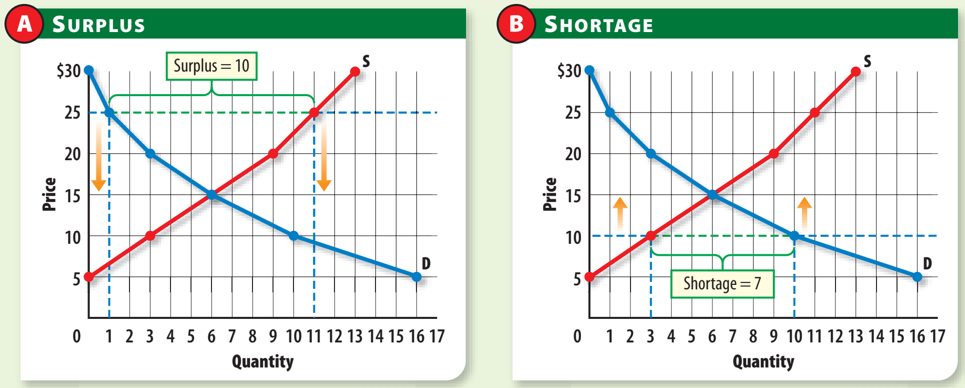
This surplus shows up as unsold products on suppliers' shelves, and it begins to take up space in their warehouses. Sellers now know that $25 is too high, and they know that they have to lower their price if they want to attract more buyers and dispose of the surplus.

Therefore, the price tends to go down as a result of the surplus. The model cannot tell us how far the price will go down, but we can reasonably assume that the price will go down only a little if the surplus is small, and much more if the surplus is larger.

Shortage

D Suppliers are more cautious on Day 2, so they anticipate a much lower price of $10. At that price, the quantity they are willing to supply changes to three CDs. However, as **Panel B** in Figure 6.2 shows, this price turns out to be too low. At a market price of $10, only three CDs are supplied and 10 are demanded—leaving a shortage of seven CDs.

Figure 6.2 ▸ Surpluses and Shortages



▸ A surplus occurs when sellers produce more units than buyers will purchase at a given price. A shortage is the result of buyers wanting to purchase more units than sellers offer at a given price. Surpluses will cause prices to drop, and shortages will cause prices to rise until prices reach an equilibrium.

Economic Analysis ***Why did the surplus shown in Panel A occur?***

Graphs In MOtion

See StudentWorks™ Plus or glencoe.com.

Activity: Hands-On Economics

Identifying Surpluses and Shortages

Have students visit an area shopping mall and look for examples of surpluses and shortages, listing 5 to 10 items for each concept. Encourage students to visit a range of stores and include a range of products in their counts. Note that almost any sale or clearance item can be an example of a surplus, while rain checks or sold-out items signal a shortage. If students encounter difficulty identifying shortages, they may want to interview salespeople about their experiences with shortages. **Ask:** Did the stores visited have more surpluses or more shortages? Ask students to write short essays in which they examine the prices and other determinants related to the items they found. They should also hypothesize as to why the surplus or shortage occurred. **OL**

Mike Baldwin/CartoonStock

Equilibrium Price Supply and demand determine the final price of a product. ***Why does the price differ for the CDs in the cartoon?***

A **shortage** is a situation in which the quantity demanded is greater than the quantity supplied at a given price. When a shortage happens, producers have no more CDs to sell, and they end the day wishing that they had charged a higher price for their products.

As a result of the shortage, both the price and the quantity supplied will go up in the next trading period. While our model does not show exactly how much the price will go up, we can assume that the next price will be less than $25, which we already know is too high.

Equilibrium Price

If the new price is $20 on Day 3, the result will be a surplus of six CDs. This surplus will cause the price to drop again, but probably not below $10, which already proved to be too low. However, if the price drops to $15, the market will have found its equilibrium price. As you learned earlier, the equilibrium price is the price that "clears the market" by leaving neither a surplus nor a shortage at the end of the trading period.

While our economic model of the market cannot show exactly how long it will take to reach equilibrium, the temporary surpluses and shortages will always be pushing the price in that direction. Whenever the price is too high, the surplus will tend to force it down. Whenever the price is too low, the shortage will tend to force it up. As a result, the market tends to seek its own equilibrium.

When the equilibrium price of $15 is finally reached, it will tend to remain there because the quantity supplied is exactly equal to the quantity demanded. Something could come along to disturb the equilibrium, but then new shortages, new surpluses, or both would appear to push the price toward its new equilibrium level.

Think of how much more difficult it would be to reach an equilibrium price if we did not have markets to help us with these decisions. You already learned that prices are neutral, flexible, understood by everybody, and free of administrative costs. It would be difficult to find another system that works equally well at setting the equilibrium price at exactly $15 and the equilibrium quantity at exactly six units. Also, when markets set prices, everybody has a hand in determining the outcome.

✓Reading Check **Summarizing** How do surpluses and shortages help establish the equilibrium price?

shortage situation where quantity supplied is less than quantity demanded at a given price

S Skill Practice

Analyzing Cartoons After students answer the caption question, have them make a list of other items that the cartoonist could have used to convey the same message. *(Possible answers: best-selling and bargain bin books; hit DVDs and box-office bombs)* **BL**

C Critical Thinking

Determining Cause and Effect **Ask:** **What are some factors that could disturb an equilibrium market?** *(Possible answers: new competitors entering the market; technological improvements to a product; drop in wages; inflation)* **OL**

Caption Answer: The $20 CDs are popular sellers; the $5 CDs are not.

✓Reading Check **Answer:** Surpluses cause sellers to lower prices while shortages cause sellers to raise prices. This process continues until there are no surpluses or shortages and an equilibrium price is reached.

Hands-On Chapter Project

Step 2

Evaluating Prices

Step 2: Determining an Equilibrium Price. Students will seek to find an equilibrium price for cookies they are selling.

Directions: Have students return to the groups previously established. Instruct groups to bake a batch of cookies of the type that was assigned to them in Step 1. Ask each group to set up a table in a hallway during lunch period or after school, placing only six of their cookies on sale for 10 cents apiece. The next day have students offer three dozen of their cookies for sale at $1 apiece. On the third day (they may wish to bake a fresh batch of cookies by this point) have students place two dozen of their cookies on sale for 30 cents apiece. On the fourth day, have students choose how many and at what price to sell cookies based on what they believe is the equilibrium price. Students should record customer response for each sale day. You may wish to vary prices, number of cookies sold, or number of sale days for this activity.

Comparing Instruct groups to write a report comparing the results of their bake sale with the case study on CDs in this section. Student reports should include their theories on why their results were similar to or different from the case study. **OL**

(Chapter Project continued in Section 3.)

R Reading Strategy

Outlining Have students outline the subsection, taking note of the most important ideas and concepts. Provide students with examples of an outline to use as a guide. **BL**

W Writing Support

Narrative Writing Have students identify a business, other than farming, that sometimes experiences fluctuations in supply (for example, gas stations and grocery stores). Ask students to write a short story about an entrepreneur in that business who must deal with certain supply fluctuations. Tell students to explain in their stories the factors that caused the fluctuations and how they affected supply and prices. **OL**

Economic Analysis

Answer: Students will likely say an economic upturn or downturn, or a change in income, or a change in number of consumers.

Economics ONLINE

Student Web Activity Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on *Chapter 6—Student Web Activities* for an activity on prices.

Explaining and Predicting Prices

MAIN Idea Changes in supply and demand can result in changes in prices.

Economics & You What happens to prices of concert tickets for bands that have become popular? Read on to find out how changes in demand affect prices.

Economists use their market models to explain changes in prices. A change in price is normally caused by a change in supply, a change in demand, or changes in both. Elasticity is also important when predicting how prices are likely to change.

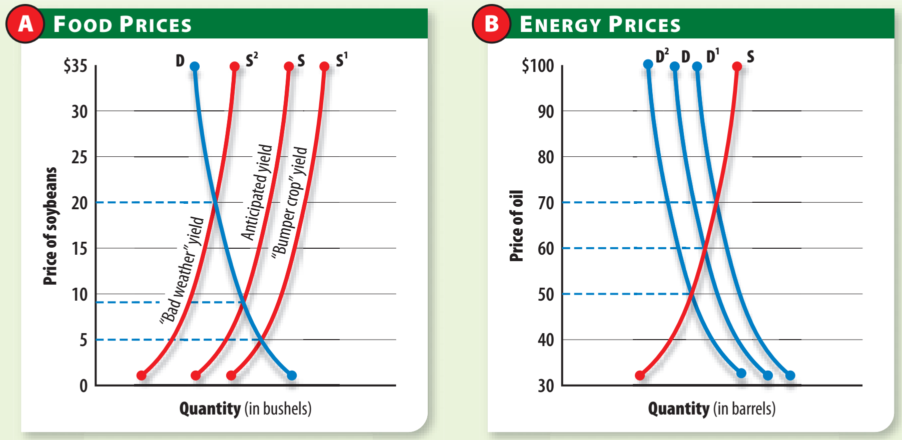
Change in Supply

Consider agriculture, which often experiences wide swings in prices from one year to the next. A farmer may keep up with all the latest developments and have the best advice experts can offer, but the farmer can never be sure what price to expect for the crop. For example, a soybean farmer may put in 500 acres of beans, hoping for a price of $9 a bushel. However, the farmer also knows that the actual price may end up being anywhere from $5 to $20.

Weather is one of the main reasons for variations in agricultural prices. If it rains too much after planting, the seeds may rot or be washed away and the farmer must replant. If it rains too little, the seeds may not sprout. Even if the weather is perfect during the growing season, rain can still interfere with the harvest. The weather, then, often causes a change in supply.

The result, shown in **Panel A** of **Figure 6.3**, is that the supply curve for agricultural products is likely to shift, causing the price to go up or down. At the beginning of the season, the farmer may expect supply to look like curve **S.** If a bumper, or record, crop is harvested, however, supply may look like **S¹.** If severe weather strikes, supply may look like **S².** In either case the price of soybeans is likely to change dramatically.

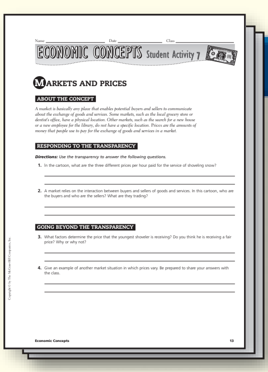
Figure 6.3 ▶ **Changes in Prices**



▶ The supply and demand curves are both inelastic. Panel A illustrates how a change in supply due to weather can cause a large change in food prices. Panel B shows that a large price change will also take place if there is a change in demand.

Economic Analysis ***What would cause a change in the market demand for food?***

Differentiated Instruction



Economic Concepts Trans., Strat., and Act., p. 13

Markets and Prices

Objective: Understand how prices are determined in a market.

Focus: Ask students to write a definition in their own words for *market* and *price*.

Teach: Have students examine the transparency and answer the questions on the activity sheet.

Assess: Review the answers as a class.

Close: Ask students to write a paragraph explaining the relationship between markets and prices.

Differentiated Instruction Strategies

BL Have students answer the question in Suggested Activity a.

AL Have students answer the question in Suggested Activity b.

ELL Have students draw a diagram illustrating in some way the concepts of markets and prices.

Change in Demand

A change in demand, like a change in supply, can affect the price of a good or service. All of the factors we examined in Chapter 4—changes in income, tastes, prices of related products, expectations, and the number of consumers—affect the market demand for goods and services. One example is the demand for oil.

In **Panel B** of Figure 6.3, a modest increase in demand, illustrated by a shift from **D** to **D¹**, causes a large increase in the price. This is exactly what happened in 2005 and 2006 when economic growth in the U.S. economy and the rest of the world, especially China and India, increased the demand for energy. Because both the supply and the demand for oil are inelastic, the price of oil increased dramatically. On the other hand, if the world economy had declined instead, demand would have shifted to **D²,** bringing the price of oil down.

Change in Supply *and* Demand

In the real world, changes in both supply and demand often affect prices. For example, we know that strong economic growth in 2005 caused the demand curve for oil to increase (or shift to the right), which drove prices up.

To make matters worse, hurricanes Katrina and Rita tore through the Gulf of Mexico, destroying and disabling hundreds of drilling platforms, refineries, and storage facilities. This caused the supply of oil to decrease (or shift to the left), driving the price of gasoline even higher. The resulting combination of increased demand and decreased supply gave the U.S. economy some of the highest energy prices it had seen since the 1970s.

The Importance of Elasticity

D

Whenever supply or demand for a product **fluctuates,** the elasticity of the two curves affects the size of the price change. To illustrate, both curves are relatively inelastic in Figure 6.3. If you look at Panel A, you can see that the change in price is relatively large when supply changes. Panel B shows that the change in price is also large when demand shifts. If one or both curves are elastic, though, the change in price will be smaller.

Fortunately, as we saw in Chapters 4 and 5, there are ways for us to determine the elasticity of both supply and demand. This means that we can predict how prices are likely to change if we know the elasticity of each curve and the underlying factors that cause the supply and demand curves to change.

CAREERS

Real Estate Agent

The Work

* Assist in renting, selling, and buying property for clients
* Obtain listings (owner agreements to place properties for rent or sale), advertise the property, and show the property to prospective renters and buyers

Qualifications

* Knowledge of fair-market values, zoning laws, local land-use laws, housing and building codes, insurance coverage, mortgage and interest rates
* Highly ambitious, flexible schedule, extensive social and business connections
* High-school diploma, at least 18 years old, state real estate license
* College courses in real estate, finance, business administration, statistics, economics, law, and English helpful

Earnings

* Median annual earnings (including commissions): $35,670

Job Growth Outlook

* Average

Source: *Occupational Outlook Handbook*, 2006–2007 Edition

D Differentiated Instruction

English Language Learners

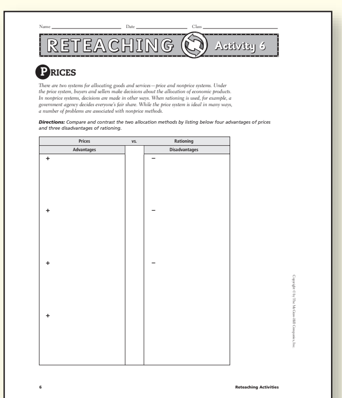
Organize the class into pairs before asking the following questions. **Ask:** What are three objects that could be used to illustrate the concept *fluctuate*? *(Possible answer: a swing, a yo-yo, a bouncing ball)* What are three objects that could be used to illustrate the concept *elastic*? *(Possible answer: a rubber band, a waistband in sweatpants, a metal spring)* Call on pairs to share their examples with the class. **ELL**

Did You Know?

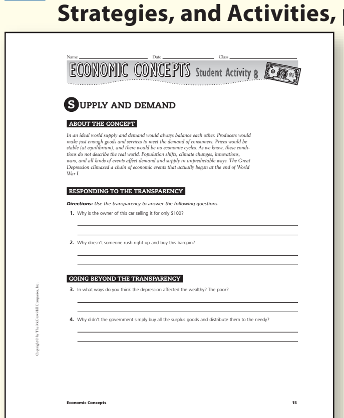
In 1990 the median price for an existing home in the United States was $92,000. Five years later this figure had climbed to $110,500, and in 2000 it was at $139,000. In 2005 the median price for an existing home had reached $219,000, representing a 138% increase in only 15 years.

Leveled Activities

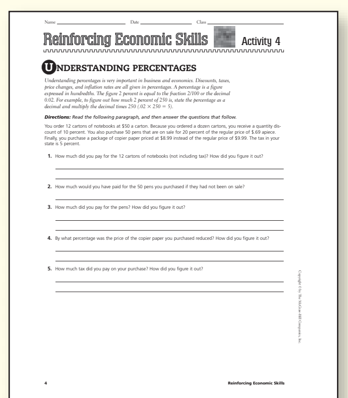
BL Reteaching Activities, p. 6



OL Economic Concepts Transparencies, Strategies, and Activities, p. 15



AL Reinforcing Economic Skills, p. 4



C Critical Thinking

Interpreting **Ask:** What is ironic about what is happening in the cartoon? *(A customer is using a seller's own product to identify a better price on the same product sold by a competitor.)* **BL**

Caption Answer: Price systems are more efficient in them.

✓Reading Check Answer: Elasticity limits the changes in prices that occur for a good when its supply or demand fluctuates.

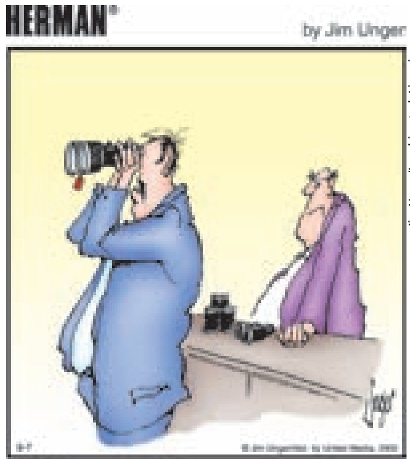
Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 2, and then assign the Section 2 Review as homework or as an in-class activity.

Close

Outlining Ask students to make an outline of the section. **OL**

Competitive Markets
In competitive markets, sellers need to adjust their prices to attract buyers.
Why do economists like competitive markets?



Jim Unger/Laughingstock Licensing

"Well look at that! The store across the street has the same binoculars for $15 less."

Prices and Competitive Markets

Economists like to see competitive markets because the price system is more efficient when markets are competitive. A perfectly competitive market requires a set of ideal conditions and outcomes that are seldom found in the real world, but fortunately markets don't have to be perfect to be useful. As long as prices are allowed to adjust to new levels in response to the pressures exerted by surpluses and shortages, prices will perform their role as signals to both consumers and producers.

The great advantage of competitive markets is that they allocate resources efficiently. As sellers compete to meet consumer demands, they are forced to lower the prices of their goods. This in turn encourages them to keep their costs down. At the same time, competition among buyers helps prevent prices from falling too far.

In the final analysis, a competitive market economy is one that "runs itself." There is no need for a bureaucracy, planning commission, or other agency to set prices, because the market tends to find its own equilibrium. In addition, the three basic economic questions of WHAT, HOW, and FOR WHOM to produce are decided by the participants—the buyers and sellers—in the market.

✓Reading Check **Explaining** How does the elasticity of a good affect its price?

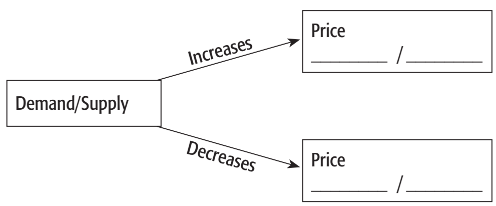
SECTION 2 Review

Vocabulary

1. **Explain** the significance of economic model, equilibrium price, surplus, and shortage.

Main Ideas

2. **Determining Cause and Effect** Use a graphic organizer like the one below to show how a change in demand or supply affects the price of a product.



3. **Explaining** How does the elasticity of supply and demand for a product affect the size of a price change?

Critical Thinking

4. **The BIG Idea** Explain why competitive markets allocate resources efficiently.
5. **Making Inferences** What do merchants usually do to sell items that are overstocked? What does this tell you about the equilibrium price for the product?
6. **Understanding Cause and Effect** What will happen to the price you pay for concert tickets if a popular group has to move its show to a smaller facility? Why?
7. **Analyzing Visuals** Look at Figure 6.2 on p. 150. Create a graph showing what will happen at a price of $20.

Applying Economics

8. **Equilibrium Price** Select a product that appears in newspaper ads of several different stores. Note the various prices and indicate whether any of these prices are sale prices. What does the information tell you about the equilibrium price of the product you selected?

SECTION 2 Review

Answers

1. All definitions can be found in the section and the Glossary.
2. **Price** (top): increases/decreases
   Price (bottom): decreases/increases
3. If supply and demand for a product are inelastic, a change in price will be relatively large. If supply and demand are elastic, a change in price will be relatively small. If one is elastic and the other inelastic, a moderate price change will result.
4. As sellers compete with each other, they are forced to lower prices to attract customers. This encourages them to limit production costs. Competition among buyers helps prevent prices from falling too far.
5. Merchants usually lower the prices of overstocked items. A surplus indicates that the equilibrium price for an item is lower than the original price charged by the merchant.
6. Ticket prices will increase because the supply is reduced, while demand remains high.
7. Students' graphs should identify a surplus of 6 at a price of $20.
8. Answers will vary. If a product is on sale everywhere, this indicates that its original price was higher than its equilibrium price. If stores are generally charging the same price for an item, this indicates that it is selling at or near the equilibrium price.

BusinessWeek NEWSCLIP

The beauty of the supply and demand system lies in its ability to set prices. If demand is high and supply low, prices skyrocket and producers increase supplies. Simple, right? What happens, though, if suppliers are unable keep up with rapidly growing demand?

What's Raining on Solar's Parade?

The solar power industry has been on a tear, growing at more than 30% per year for the last six years. It's poised to reach a surprising milestone within two years, when it will gobble up more silicon for its electricity-generating panels than semiconductor makers use in all their chips and devices. . . .

So what's the problem? "Global demand is stronger than the existing supply," says Lee Edwards, president and CEO of BP Solar. His company and others can't buy enough of the ultrapure polysilicon now used in 91% of solar panels. The raw material shortage has slashed growth for the industry from more than 50% in 2004 to a projected 5% in 2006.

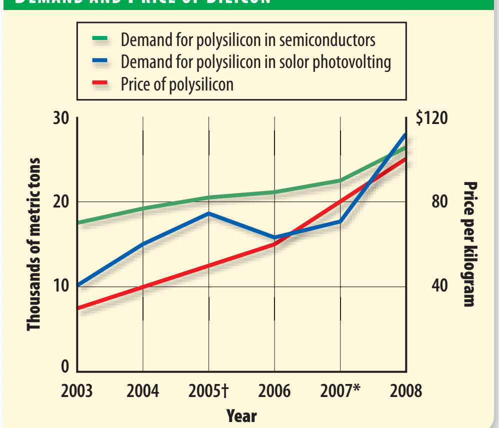
The shortage has caused prices for polysilicon to more than double over the last two years. As

Economics 101 teaches, that should prompt producers to expand capacity. But for suppliers such as Michigan-based Hemlock Semiconductor Corp., the world's largest producer, the decision hasn't been easy. For one thing, the company was badly burned in 1998. It had just built a new facility in response to pleas from semiconductor makers when Asia went into a slowdown. Demand for silicon plunged, and the factory had to be shuttered. . . .

Hemlock finally decided that the industry is real, but only after solar companies agreed to share the risk by signing contracts to buy the future output. So in December the company began an expansion worth more than $400 million that will increase silicon production by 50%. Competitors are following suit. C

—Reprinted from *BusinessWeek*

Demand and Price of Silicon



Sources: Riper Jaffray, www.renewableenergyaccess.com
* 2007 figure for price is estimated.
† 2005–2008 figures for demand are estimated.

Examining the Newsclip

1. **Understanding Cause and Effect** How did the shortage of polysilicon affect its price?
2. **Analyzing** Why was Hemlock Semiconductor Corp. at first reluctant to increase the production of polysilicon?

BusinessWeek

Teach

C Critical Thinking

Assessing **Ask:** **What risk is Hemlock taking with its recent action?** *(expanding its silicon production beyond demand)* **Do you think the corporation made a wise move?** *(Students responding "yes" may point out that demand has grown and solar companies have agreed to buy Hemlock's output. Students responding "no" may point out that new technology or an economic downturn could reduce demand.)* **OL**

BusinessWeek ONLINE

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, www.businessweek.com.

Examining the Newsclip

Answers:

1. caused it to more than double
2. It had earlier expanded production but demand fell.

Additional Support

Activity: Collaborative Learning

Understanding Demand Fluctuations Organize the class into small groups. Direct groups to review recent newspapers, magazines, and Internet news Web sites to find articles about a product for which demand has significantly increased or decreased in recent years. Have groups prepare a multimedia presentation that explains why the demand fluctuation has occurred, how the fluctuation has impacted the price of the product, and how businesses have responded to these trends. **OL**

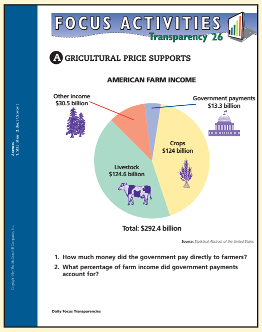
Teacher Tip

Adding to the Content As a way of introducing this activity, you may want to have a local business owner or manager visit the class to describe his or her business's response to demand fluctuations.

Focus

Bellringer

Daily Focus Transparency 26



GUIDE TO READING

Answers to Graphic:

Price ceiling: supply decreases as sellers shift resources to more profitable ventures

Price floor: demand decreases; for example, employers might hire fewer workers if the minimum wage is raised

SECTION 3

Social Goals and Market Efficiency

GUIDE TO READING

Section Preview

In this section, you will learn that governments sometimes use policies that interfere with the market in order to achieve social goals.

Content Vocabulary

- price ceiling *(p. 157)*
- minimum wage *(p. 158)*
- price floor *(p. 158)*
- target price *(p. 159)*
- nonrecourse loan *(p. 159)*
- deficiency payment *(p. 159)*

Academic Vocabulary

- arbitrarily *(p. 157)*
- stabilize *(p. 159)*

Reading Strategy

Explaining As you read the section, complete a cause-and-effect chart similar to the one below by explaining the effects of price ceilings and price floors.

Policy	Effects
Price ceiling	
Price floor	

ISSUES IN THE NEWS

—The Washington Times

Minimum Wage Rise Hurts Students

Maryland small business owners are bemoaning higher labor costs as the state's minimum wage increases today from the federal threshold of $5.15 per hour to $6.15.

. . . "A dollar an hour is a huge jump—people have no idea how that affects your payroll," said Mike Kostinsky, who owns Sorrento of Arbutus, a pizza restaurant in Arbutus, Md.

. . . Mr. Kostinsky, whose family has owned Sorrento for 41 years, said he typically adds four or five high school students at minimum wage during the summer to allow his 30 or so permanent employees to take vacations. As a result of the wage increase, "I won't let anybody go, but I probably won't hire anybody else," he said. ■

In Chapter 2 we examined seven broad economic and social goals that most people seem to share. We also observed that these goals, while commendable, are sometimes in conflict with one another. These goals also have been partially responsible for the increased role that government plays in our economy.

Attempts to achieve one of these goals—economic security—occasionally result in legislation such as the increase in the minimum wage in Maryland described in the news story above. While the legislation is clearly beneficial to some people, it can be detrimental to others. What is common to all of these situations, however, is that the outcome—wage control—can only be achieved by interfering with the price system and distorting the allocations made in the market.

Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
Teacher Edition • Det. Importance, p. 158 • Monitoring, p. 160 **Additional Resources** • Guid. Read. Act., p. 18 • Reading Ess. & Note-Taking Guide, p. 52	**Teacher Edition** • Evaluating, p. 159 • Differentiating, p. 162 **Additional Resources** • Econ. Content Vocab. Act., p. 6 • Authentic Assess., p. 9	**Teacher Edition** • Intrapersonal, p. 158 • Interpersonal, p. 161 **Additional Resources** • Reading and Study Skills Fold., p. 53 • Quizzes and Tests, p. 71	**Teacher Edition** • Persuasive Writing, pp. 157, 167 • Expository Writing, p. 159 **Additional Resources** • High School Reading in the Content Area	**Teacher Edition** • Analyzing Charts, p. 157 • Analyzing Cartoons, p. 160 • Using Tables and Charts, p. 166 **Additional Resources** • Reteach. Act., p. 6

Distorting Market Outcomes

MAIN Idea Price ceilings and price floors prevent prices from allocating goods and resources.

Economics & You Do you think the minimum wage helps you or other people who are looking for jobs? Read on to learn how the minimum wage can affect the job market.

One common way to achieve social goals is to have the government set prices at "socially desirable" levels. When this happens, prices are not allowed to adjust to their equilibrium levels, and the price system cannot transmit accurate information to other buyers and sellers in the market.

Price Ceilings

Some cities, especially New York City, have a long history of using rent controls to try to make housing more affordable. This is an example of a **price ceiling**, a maximum legal price that can be charged for a product.

The case of a price ceiling is shown in **Figure 6.4.** Let us assume that without the ceiling, the market would establish monthly rents at $900, which is an equilibrium price because 2.0 million apartments would be supplied and rented at that rate. If authorities think $900 is too high, and if they want to achieve the social goals of equity and security for people who cannot afford these rents, they can **arbitrarily** establish a price ceiling at $600 a month.

No doubt renters would love the lower price and might demand 2.4 million apartments. Landlords, on the other hand, would try to convert some apartments to other uses, such as condominiums and office buildings that offer higher returns. Therefore, the supply might only reach 1.6 million apartments at $600 per month, leaving a permanent shortage of 800,000 apartments.

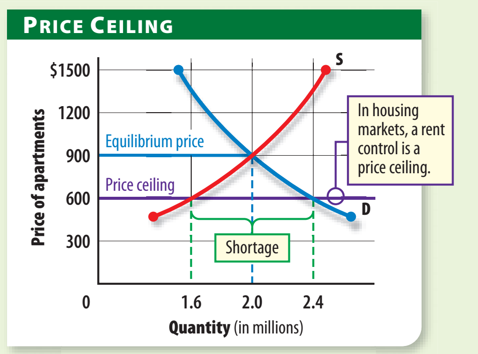
Are consumers better off? Perhaps not. More than likely, the better apartments will be converted to condos or offices—leaving the poorer ones to be rented. In addition, 800,000 people are now unhappy because they cannot get an apartment, although they are willing and able to pay for one. Prices no longer allocate apartments. Instead, landlords resort to long waiting lists or other nonprice criteria such as excluding children and pets to discourage applicants.

Rent controls also freeze a landlord's total revenue and threaten his or her profits. As a result, the landlord tries to lower costs by providing the absolute minimum upkeep. In addition, landlords have little incentive to add additional units if they feel rents are too low. Some apartment buildings may even be torn down to make way for shopping centers, factories, or high-rise office buildings.

The price ceiling, like any other price, affects the allocation of resources—but not in the way intended. The attempt to limit rents makes some people happy, until their

price ceiling highest legal price that can be charged for a product

Figure 6.4 ▶ Price Ceilings



▶ A price ceiling of $600 leaves 800,000 people permanently without apartments. Without the ceiling, an additional 400,000 people would have found an apartment at $900.

Economic Analysis *Why does government sometimes impose restrictions such as price ceilings on the market?*

Teach

W Writing Support

Persuasive Writing Instruct students to research rent controls in a large U.S. city such as New York. Ask students to write a persuasive essay in which they argue that rent controls are or are not an effective method of promoting social equality and security among citizens. **AL**

S Skill Practice

Analyzing Charts **Ask:** **What would likely happen if the government raised the price ceiling by $400? Explain.** *(Apartment prices would increase to $900, and apartment unit supply would increase to accommodate 400,000 more people. The new $1,000 price ceiling would have little additional effect since it is more than the equilibrium price.)* **OL**

Economic Analysis

Answer: to try to achieve social equality and security for people who cannot afford equilibrium prices

Additional Support

Activity: Hands-On Economics

Price Controls Organize the class into pairs. Instruct pairs to conduct research to identify an example of a price control that was once in place in their city or county. Controls on gas prices during the 1970s and Nixon's price controls (1971–1974) are possible examples. Students may be able to find people who can recall the price controls enacted during the Korean War and World War II. Have students interview at least three people who were impacted by the price control they identify. Encourage students to talk to at least one producer and one consumer during their interviews, if possible. Ask each pair to write a report describing the local impact of the price control they selected. **OL**

R Reading Strategy

Determining Importance

Ask: What important points about the minimum wage are made in this subsection? *(It may increase unemployment; it may promote equality; it may not be relevant in some areas.)* **OL**

D Differentiated Instruction

Intrapersonal Ask students to think about how the minimum wage may affect them now or in the future. Then have them write an essay on their thoughts and opinions. **OL**

Economic Analysis

Answer: workers who keep their jobs and whose wages are raised by the price floor benefit; people who are not hired because of employer cutbacks on hiring

Reading Check **Answer:** Price ceilings keep certain products affordable but limit their supply. Price floors increase income but lower demand for services.

minimum wage lowest legal wage that can be paid to most workers

price floor lowest legal price that can be paid for a product

buildings begin to deteriorate. Others, including landlords and potential renters on waiting lists, are unhappy from the beginning. Finally, some productive resources—those used to build and maintain apartments—slowly move out of the rental market.

R Price Floors

Other prices are sometimes considered too low, so the government takes steps to keep them higher. The **minimum wage**, the lowest legal wage that can be paid to most workers, is such a case. The minimum wage in fact is a **price floor**, or lowest legal price that can be paid for a good or service.

Figure 6.5 uses a minimum wage of $5.15 per hour as an illustration of a price floor. At this wage, the supply curve shows that 14 million people would want to offer their services. According to the demand curve for labor, however, only 10 million would be hired, leaving a surplus of 4 million workers without jobs.

The figure also shows that without the minimum wage, the actual demand and supply of labor would establish an equilibrium price of $4.00 per hour. At this wage, 12 million workers would offer their services and the same number would be hired—which means that there would be neither a shortage nor a surplus in the labor market.

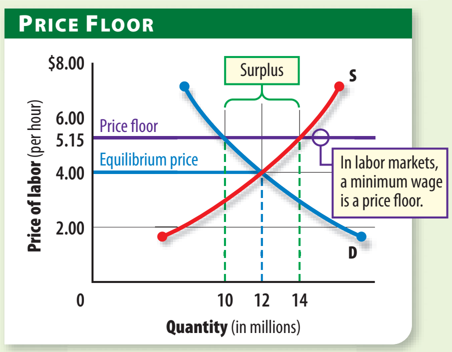
Most economists argue that the minimum wage actually increases the number of people who do not have jobs because employers hire fewer workers at higher wages. In the case of Figure 6.5, the number of people who lose jobs amounts to 2 million—the difference between the 12 million who would have worked at the equilibrium price and the 10 million who actually work at the higher wage of $5.15 per hour.

Is the minimum wage good or bad for the economy? Certainly the minimum wage is not as efficient as a wage set by supply and demand, but not all decisions in our economy are made on the basis of efficiency. The basic argument in favor of the minimum wage is that it raises poor people's incomes and provides a small measure of equity—one of our seven major economic and social goals. A federal minimum wage is evidence that the small measure of equity provided by the minimum wage is preferred to the loss of efficiency.

Finally, it could be argued that the minimum wage is irrelevant because it is actually lower than the lowest wages paid in many areas. Consider the wages in your area, for example. More than likely, most employers pay wages higher than the minimum wage and would not lower them even if the minimum wage were eliminated. Do you think that your employer would pay you less if he or she were allowed to do so? Your response will provide a partial answer to the question. **D**

Reading Check **Analyzing** What are the negative and positive aspects of price ceilings and price floors?

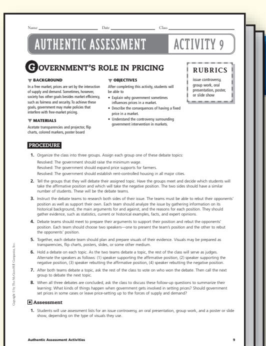
Figure 6.5 ▸ Price Floors



▸ At a price floor of $5.15 per hour, 10 million workers will be hired. At the equilibrium price of $4.00 per hour, 2 million more people would find jobs.

Economic Analysis ***Who benefits from price floors? Who is placed at a disadvantage?***

Differentiated Instruction



Authentic Assessment Strategies and Activities, p. 9

Government's Role in Pricing

Objective: Understand the motives for and consequences of government policies that influence prices.

Focus: Ask students to brainstorm possible ways that the government influences prices.

Teach: Have the students complete the activity.

Assess: Ask students to vote on the debate winners as described in step 7.

Close: Lead the class in a discussion of the questions in step 8 of the Procedure.

Differentiated Instruction Strategies

BL Have students describe a possible government motive for each of the resolutions in step 1.

AL Ask students to write a short paper supporting the position they argued against during the debate.

ELL Have students create a poster supporting their group's debate position.

Agricultural Price Supports

MAIN Idea Government programs to help stabilize prices for farmers have both positive and negative effects.

Economics & You Do you remember learning in your history class about the plight of farmers during the Great Depression? Read on to find out how the government tried to help farmers.

During the Great Depression of the 1930s, prices plummeted everywhere. Farmers, however, had an even more difficult time because they were having the "bumper yields" illustrated in Panel A of Figure 6.3 on page 152 that pushed prices even lower. Because both the demand for and supply of food were inelastic, farm prices fell much further than other prices in the economy.

To help farmers, the federal government established the Commodity Credit Corporation (CCC), an agency in the Department of Agriculture. The CCC then used a **target price**, which is essentially a price floor, to help **stabilize** farm prices.

Loan Supports

Under one CCC support program, a farmer borrowed money from the CCC at the target price and pledged his or her crops as security in return. The farmer then used the loan to plant, maintain, and harvest the crops. When they were ready for harvest, the farmer had two choices: either sell the crop in the market and use the proceeds to repay the CCC loan, or keep the proceeds of the loan and let the CCC take possession of the crop. The farmer could get at least the target price because the loan was a **nonrecourse loan**—a loan that carries neither a penalty nor further obligation to repay if not paid back.

Deficiency Payments

While the CCC loan program helped farmers, it created new problems because the U.S. Department of Agriculture soon owned enormous stockpiles of food. The department had to resort to storing surplus wheat in rented warehouses or on open ground. Surplus milk was made into cheese and stored in underground caves. The military received some of the food, while public schools received other food that they could use in their "free lunch" programs. Still the surpluses grew, leaving politicians to consider how they could support farm prices and avoid holding large surpluses at the same time.

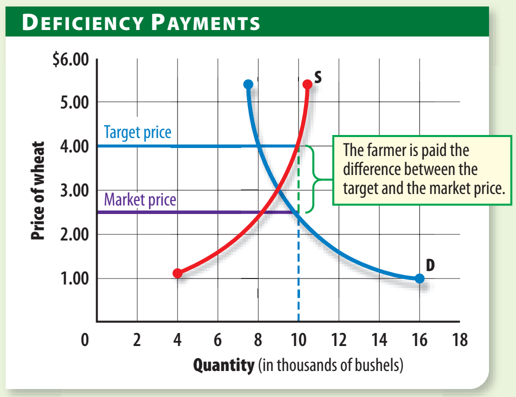
W The solution was a new government program that combined the competitive market with price supports. Farmers sold their crops on the open market for the best price they could get based on demand and supply. The CCC then gave farmers a **deficiency payment**—a check the government sends to producers to make up the difference between the market price and the target price.

target price price floor for agricultural products set by the government to stabilize farm income

nonrecourse loan agricultural loan that carries no penalty or further obligation if it is not repaid

C **deficiency payment** cash payment making up the difference between the market price and the target price

Figure 6.6 ▶ Deficiency Payments



▶ Under the CCC deficiency payment program, a target price such as $4 per bushel of wheat was set. At this price farmers would produce and sell 10,000 bushels. With 10,000 bushels produced, buyers would pay $2.50 per bushel in the marketplace, so the CCC would need to give an additional payment of $1.50 per bushel to farmers to hit the target price.

Economic Analysis ***How much would the farmer have produced and earned without the deficiency payment program?***

W Writing Support

Expository Writing Have students use reliable print or Internet resources to research what life was like for farmers during the Great Depression. Ask students to write a report on this subject (they may focus on a single family's experiences if they wish). Tell students to include in their reports how government programs, such as the ones described on this page, affected the farmers. **AL**

C Critical Thinking

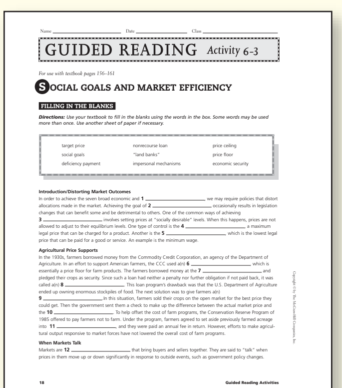
Evaluating **Ask:** Why might some people have opposed the CCC's programs during the Great Depression? *(Possible answers: concern about excessive government involvement in the economy; concern about higher taxes; concern that farmers were getting more help than workers in other sectors)* **OL**

Economic Analysis

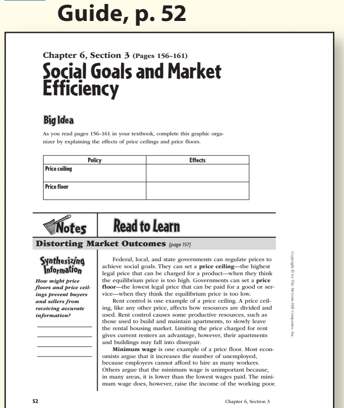
Answer: 9,000 bushels at $3 per bushel

Leveled Activities

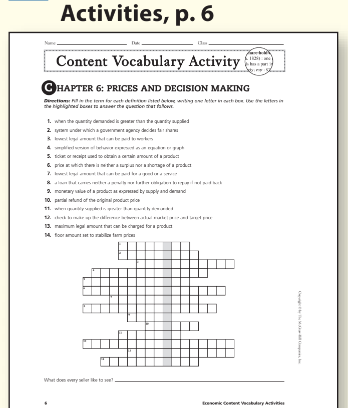
BL Guided Reading Activities, p. 18



OL Reading Essentials and Note-Taking Guide, p. 52



AL Economic Content Vocabulary Activities, p. 6



S Skill Practice

Analyzing Cartoons **Ask:** **Do you think this cartoon is generally in favor of or generally critical of the government's support of agriculture? Explain.** *(critical; the cartoon implies that farmers are being paid to do nothing and are becoming lazy)* **OL**

R Reading Strategy

Monitoring Instruct students to ask themselves questions about the text on this page. Then have students look for answers to their questions. *(For example: What is the government doing with the land in the "land bank"? It is being saved for future use.)* Ask students to think of at least one question for each heading on the page. **OL**

Caption Answer: an area larger than the state of New York

✓Reading Check **Answer:** American agriculture is more dependent than ever on subsidies and price supports.

S

McArthur, Bill/Universal Press Syndicate

"...and here I was... only just getting used to being paid for NOT doing things."

Federal Land Bank The government currently pays some farmers to not farm in an effort to reduce production and to support farm income. ***How much land is in the land bank program?***

R Conservation "Land Banks"

The loan support and deficiency payment programs of the 1930s continued for several decades. By the 1980s, though, two factors combined to make these programs increasingly expensive to maintain. For one, agricultural output increased dramatically because of increased farm productivity. In addition, there were simply too many farmers involved in agriculture. Many experts concluded that the solution was to get some farmers to stop farming.

The result was the Conservation Reserve Program of 1985 that paid farmers to *not* farm. To enroll in the program, acreage where crops previously grew was set aside in a "land bank" to save the land for future use. The U.S. Department of Agriculture would then pay the farmer an annual fee as long as the land was not farmed. While the program was expensive for taxpayers, it has since become very popular with farmers and today accounts for nearly 10 percent of total farm subsidies.

Reforming Price Supports

In an effort to make farming responsive to the market forces of supply and demand, Congress passed the Federal Agricultural Improvement and Reform (FAIR) Act in 1996. Under FAIR, "loan rates" took the place of target prices, and temporary cash payments replaced price supports and deficiency payments. Lawmakers hoped that when the law expired, farmers would be experienced enough with the laws of supply and demand to no longer need help.

However, the new payments turned out to be larger than the ones they replaced, and the overall cost of the U.S. farm support programs actually went up. Then, when FAIR was about to expire in 2002, Congress replaced it with the Farm Security and Rural Investment Act of 2002, which provided for even larger price support payments that would last through 2007.

Continued Agricultural Support

Today, American agriculture is more dependent than ever on subsidies and price supports. In addition to subsidizing basic commodities like rice, corn, sugar, and cotton, crops such as peanuts, sunflower seeds, and mohair are also covered. The amount of land that farmers are paid to not farm has grown to be larger than the state of New York.

Whether this is good or bad depends on your perspective. If you are a taxpayer supplying the funds for these payments, you might think that the government spends too much on these programs. If you are a farmer receiving payments, you are probably glad that the government is supporting the goal of economic security.

✓Reading Check **Summarizing** What has been the effect of agricultural price supports?

Hands-On Chapter Project

Step 3

Evaluating Prices

Step 3: Evaluating Effects. Students will evaluate how price ceilings or price floors affect cookie sales.

Directions: Assign a price ceiling to two of the previously established groups. Tell these two groups that they must sell their cookies at a price no more than 15 cents below the equilibrium price they determined in Step 2. Assign price floors to the other two groups. Tell these groups that they must charge a price per cookie no less than 15 cents above the equilibrium price they determined in Step 2. Have students bake and sell their cookies with the price ceilings and price floors in place.

Comparing Have groups write a report comparing the results of their cookie sale at the controlled price with the results of their sale at equilibrium price. Student reports should include an explanation for any differences. **OL**

(Chapter Project continued in Visual Summary.)

When Markets Talk

MAIN Idea Markets send signals when prices change in response to events.

Economics & You Have you heard stories in the news about changes in the stock market when a new government policy was announced? Read on to find out how markets "talk."

Markets are impersonal mechanisms that bring buyers and sellers together. Although markets do not talk in the usual sense of the word, they do send signals in that they speak collectively for all of the buyers and sellers who trade in the markets. Markets are said to "talk" when prices in them move up or down significantly in reaction to events that take place elsewhere in the economy.

D

Suppose the federal government announced that it would raise taxes to pay off some of the federal debt. If investors thought this policy would not work or that other policies might be better, they might decide to sell some of their stocks and other investments to buy gold. As a result, stock prices would fall, and the price of gold would rise. In a sense, the market would "talk" by voicing its disapproval of the new tax policy.

In this example, individual investors made decisions on the likely outcome of the new policy and sold stocks for cash or gold. Together, investor actions were enough to influence stock prices and to send a signal to the government that investors did not favor the policy. If investors' feelings were divided about the new policy, some would sell while others bought stocks. As a result, prices might not change, and the message would be that, as yet, the market had not made up its mind.

Did You Know?

Fed Alert Stock markets react quickly to any major news report. One such report is a change in the interest rate charged by the Federal Reserve for loans. Eight times a year, the Fed takes a look at this rate. Stock market reaction is swift: If it likes the change, stock prices will go up that day. Prices will drop just as quickly if changes are unexpected or undesired.

Skills Handbook

*See page **R35** to learn about **Identifying the Main Idea.***

✓Reading Check **Examining** Can you think of any other examples of markets "talking"? Explain.

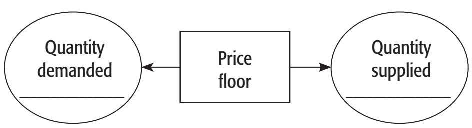
SECTION 3 Review

Vocabulary

1. **Explain** the significance of price ceiling, minimum wage, price floor, target price, nonrecourse loan, deficiency payment.

Main Ideas

2. **Determining Cause and Effect** Use a graphic organizer like the one below to illustrate how price floors affect quantity demanded and supplied.



3. **Explaining** Why did the federal government establish agricultural price support programs?
4. **Describing** How do markets speak collectively for buyers and sellers?

Critical Thinking

5. **The BIG Idea** Explain why a government would consider imposing a price ceiling or price floor.
6. **Analyzing Visuals** Look at Figure 6.4 on p. 157. How does the price ceiling affect the relationship between quantity supplied and quantity demanded? Why does the price ceiling make this relationship permanent?
7. **Predicting** What would happen if the government eliminated all farm subsidies?

Applying Economics

8. **Price Floor** Interview 10 classmates who have part-time jobs. Identify where they work and who gets paid at, below, or above the federal minimum wage. Use that information to predict how increasing the federal minimum wage by $1.00 per hour would impact employment for teenagers in your area.

D Differentiated Instruction

Interpersonal Have small groups use news Web sites or print sources to find an article about markets "talking" in response to an event. Ask groups to perform a skit illustrating the event and the market "talk" that followed. OL

✓Reading Check **Possible Answer:** a market fluctuation that occurs after the president announces an overseas military operation

Assess

Use the Interactive Tutor Self-Assessment CD-ROM to eview Section 3, and then assign the Section 3 Review as homework or as an in-class activity.

Close

Problem-Solving Have students identify a government policy they would like to see implemented that will influence the market. Ask them to explain the positive results they believe this policy will bring about. OL

Review SECTION 3

Answers

1. All definitions can be found in the section and the Glossary.
2. **Quantity demanded:** decrease
   Quantity supplied: increase
3. because farm prices fell and farmers were struggling to make a living
4. Buyers and sellers interact in a market. A significant movement of prices reflects the collective actions of buyers and sellers in a market, which thus "speaks" for these buyers and sellers.
5. A government might impose a price ceiling or a price floor to better promote social equity and security for certain groups.
6. The price ceiling creates a shortage because quantity demanded exceeds quantity supplied. This relationship is permanent because producers cannot respond to increased demand by raising prices, nor is there any incentive for them to increase quantity supplied.
7. **Possible answers:** farmers would try to produce more to make up for the loss of subsidy income; farm prices would fall with the increased production, causing farmers to go out of business; fewer farmers would reduce competition, allowing the remaining farm producers to raise prices.
8. If most students already earn more than the minimum wage, then the increase will have little effect. If most students earn less than the minimum wage, then some teenagers would lose job opportunities since employers would hire fewer of them at the higher wage level.

Teach

C Critical Thinking

Differentiating **Ask:** How do you think Margaret Whitman is different from most other CEOs? *(Answers may include her willingness to listen to customers and employees, her preference for asking questions rather than issuing orders, and her practice of reading e-mails from customers.)* OL

Examining the Profile

Answers:

1. listening to customers and responding to their demands, sharing information with employees
2. Answers will vary. Students answering "yes" may explain that valuing customer and employee opinions will make companies more responsive to current trends. Students answering "no" may explain that most companies do not function like an online auction site and thus cannot be run like eBay.

ENTREPRENEUR

Profiles in Economics

Margaret (Meg) Whitman (1956–)

- ranked by *Fortune* magazine as the "Most Powerful Woman in Business" in 2005
- turned eBay into one of the fastest-growing companies in U.S. history

Excellence Leads eBay

As president and CEO of eBay Inc. since 1998, Meg Whitman runs the world's leading Internet auction site. Although eBay was invented by software engineer Pierre Omidyar in 1995, it has been Whitman's leadership and branding expertise that made the site a household name.

The year Whitman took over eBay, the company earned about $6 million. Seven years into her leadership, the company's revenues grew to $4.6 *billion.* Her secret? She works quickly to fix problems, such as removing counterfeit items for auction and instituting PayPal to help streamline the payment process. She asks questions instead of issuing orders, and she shares what she learns with her employees. She also listens to customers and employees and seeks their feedback.

The Power of All of Us

Business analysts agree that Whitman's success has more to do with her willingness C to listen than anything else. As she says, "Our army of users figures out what's hot before we even know." That attitude keeps Whitman in the chat room instead of the boardroom. She reads hundreds of e-mails from users every day, and her "Voice of the Customer" program has been known to reverse business decisions based on user complaints. She trusts what she calls "The Power of All of Us" to sustain a community of users that will essentially guide itself. When eBay management thought car sales would be too complicated and risky, the eBay community demanded the capability. Because Whitman was open to the suggestion, more than 1 million cars have now been sold on eBay. If Meg Whitman were to have a feedback profile similar to the ones kept by the buyers and sellers on eBay, her rating would be high indeed.

When Meg Whitman became CEO, many of the items auctioned on eBay were small collectibles like Star Wars toys. Today eBay sells everything consumers demand. Says Whitman, "It is the users who build the company."

Examining the Profile

1. **Summarizing** What management techniques have made eBay so successful?
2. **Drawing Conclusions** Do you think Whitman's philosophy of "The Power of All of Us" could work in other industries? Explain.

Additional Support

Teacher Tip

Computer-Savvy Students Poll students to find out who has prior experience with eBay. Then organize groups so that at least one of these students (or a computer-savvy student) is in each group.

Activity: Technology Connection

Using an Online Auction Site Organize the class into small groups. Have each group select an item owned by one of its students that he or she would like to sell. Instruct the groups to register at the eBay Web site and place the item up for sale. Students should survey like items on the Web site to get an idea of the price they should start the bidding at. After placing the item for sale, students should monitor the item's price activity. **Ask:** Does the item demonstrate high demand? After selling the item, ask groups to prepare a report describing their experiences and expressing their opinions about using eBay. OL

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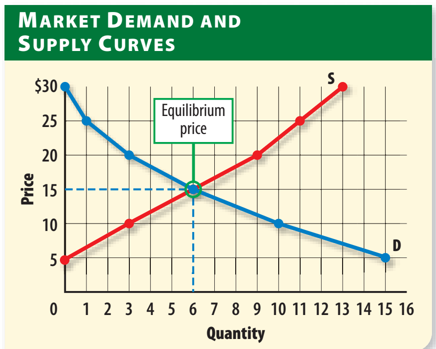
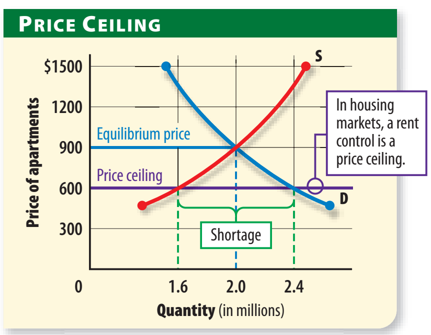
Visual Summary

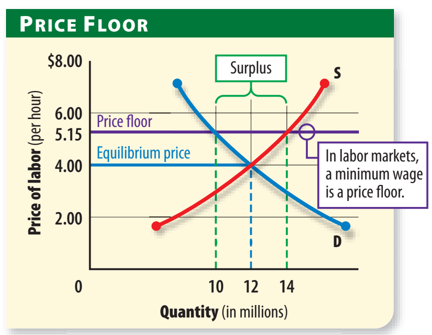
Allocation of Resources Prices are signals that help buyers and sellers make economic decisions. Without prices, societies must find other ways to allocate resources.

Market Equilibrium When buyers and sellers can freely make production and purchase decisions, the price of a product will move toward market equilibrium. At this point, the quantity supplied is exactly equal to the quantity demanded.



Social Goals and Prices The social goals of equity and security sometimes can be achieved only by giving up parts of other goals. Price ceilings or price floors can help achieve these goals, but they may result in fewer goods and services offered overall.





Visual Summary

Analyzing Ask students to create a graph showing market demand and supply curves based on the following figures:

Price	Demand	Supply
$22	60,000	20,000
$24	50,000	28,000
$26	44,000	32,000
$28	36,000	36,000
$30	30,000	40,000
$32	24,000	46,000

Ask: Which prices will result in surpluses? *($30 and $32)* **Which prices will result in shortages?** *($22, $24, and $26)* **BL**

Defending Have students take on the roles of Congress members participating in a floor debate about a bill that would raise the minimum wage by $1.00 per hour. Direct students to write a speech expressing their views on the bill. Students may wish to suggest a modification to the bill rather than accepting or rejecting it outright. Remind students that the speech is intended to win the support of other members. **OL**

Hands-On Chapter Project

Step 4: Wrap Up

Evaluating Prices

Step 4: Bringing It All Together. Students will synthesize what they learned in previous steps.

Directions: Have students resume work in their groups. Ask students to compare the price prediction they made in Step 1 with the actual equilibrium price for their cookies as determined in Step 2. Then, instruct each group to create graphs charting the supply and demand curves for their cookie sales in Step 2, and then for their cookie sales in Step 3 with the price control. Finally, ask groups to prepare a "business report" to be presented orally to the class. The report should explain the accuracy of their Step 1 prediction, their sales numbers in Steps 2 and 3, and an assessment of the factors that influenced their market results. **OL**

ExamView® Assessment Suite

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Review Content Vocabulary

1. c
2. a
3. d
4. e
5. b
6. f

Review Academic Vocabulary

7. Puzzles will vary but should demonstrate understanding of each term's meaning in an economic context.

Review the Main Ideas

8. prices are neutral, prices are flexible, people are familiar with prices, prices have no administrative costs
9. People question the fairness of a rationing system; rationing has a high administrative cost.
10. Prices favor neither the producer nor the consumer.
11. the price at which the number of units produced equals the number of units sold
12. Shortages reveal that the price is below equilibrium level. Surpluses indicate that the price is above equilibrium level.
13. Answers will vary but should identify the three factors as a change in supply, a change in demand, and a change in both supply and demand.
14. Price controls prevent the market from adjusting prices to eliminate shortages and surpluses.

CHAPTER 6 Assessment & Activities

Review Content Vocabulary

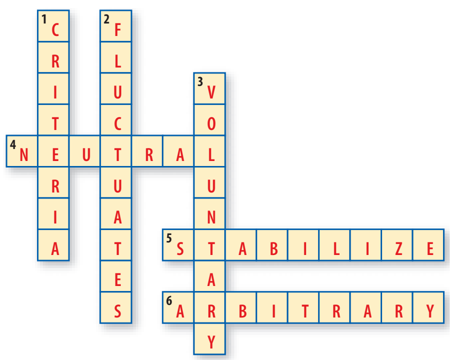
Use the terms below to identify the missing cause or effect in the following situations.

a. rationing	**d.** equilibrium price
b. surplus	**e.** price ceiling
c. shortage	**f.** price floor

1. **Cause:** The government tries to keep prices down by legislating a price ceiling. **Effect:** ______
2. **Cause:** The government wants to allocate scarce goods and services without the help of a price system. **Effect:** ______
3. **Cause:** A reasonably competitive market experiences brief, minor shortages and surpluses. **Effect:** ______
4. **Cause:** ______ **Effect:** New York City has many apartments with very low rents but also has a shortage of apartment units.
5. **Cause:** A market is at equilibrium, but the product falls out of style before producers can reduce production. **Effect:** ______
6. **Cause:** ______ **Effect:** Farmers receive higher prices for milk and cheese but also experience a surplus.

Review Academic Vocabulary

7. Create the clues for the crossword puzzle below. Your clues should relate to the chapter content.



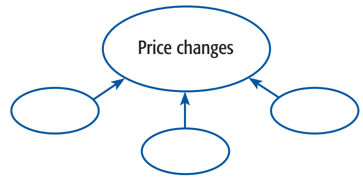
Review the Main Ideas

Section 1 *(pages 143–146)*

8. **Describe** four advantages of using price as an allocating mechanism.
9. **Discuss** why allocating resources without prices is difficult.
10. **Explain** why prices are neutral.

Section 2 *(pages 148–154)*

11. **Explain** what is meant by the term *market equilibrium*.
12. **Describe** the role of shortages and surpluses in competitive markets.
13. **Identify** three causes of a price change in a market, using a graphic organizer like the one below. Add examples and identify the possible results for each.



Section 3 *(pages 156–161)*

14. **Explain** why shortages and surpluses are not temporary when price controls are used.
15. **Identify** and describe two of the programs that have been used to stabilize farm incomes.
16. **Explain** what is meant by the statement that "markets talk."

Critical Thinking

17. **The BIG Idea** Explain why and how a reasonably competitive market is always moving toward equilibrium.
18. **Making Generalizations** Some people argue that providing price supports to farmers is unfair to consumers. In a short paper, describe the positive and negative results of these price supports. Then explain why you support or oppose such programs.

15. **Possible answer:** deficiency payments—farmers received government money to make up the difference between market price and target price; Conservation Reserve Program—farmers paid not to farm.
16. When prices increase or decrease, the market is "voicing" the collective opinion of buyers and sellers.

Critical Thinking

17. Surpluses cause producers to lower prices to sell more items. Shortages cause producers to raise prices. These pressures continue until equilibrium is reached.
18. Positive results include security for farmers, stability of domestic food supply, and stronger agricultural sector. Negative results include higher taxes, higher prices, and inefficient use of resources.

Economics ONLINE **Self-Check Quiz** Visit the *Economics: Principles and Practices* Web site at glencoe.com and click on *Chapter 6—Self-Check Quizzes* to prepare for the chapter test.

19. Making Predictions Suppose that your state wanted to make health care more affordable for everyone. To do this, state legislators put a series of price controls–price ceilings–in place that cut the cost of medical services in half. In short paragraphs, explain your answers to the following questions:

- **a.** What would happen to the demand for medical services at the new, lower price?
- **b.** What would happen to the supply of medical services that doctors would be willing to provide at the new, lower price?
- **c.** What considerations would new doctors take into account when they decide where to set up their practice? Explain the reasons for your answers.

20. Synthesizing You were invited to speak to a middle school class about the activities available at your school. You brought 20 ballpoint pens with the high school logo, but there were 30 students in the class. What kind of nonprice rationing system would you devise to fairly allocate the scarce item?

21. Predicting Assume that the price of school lunches has become too high, and you need to set a price ceiling to remedy the problem. What would the consequences of such a policy be for both students and the school?

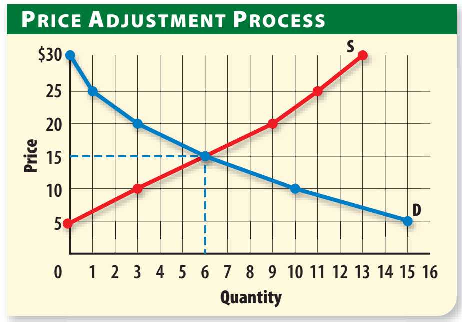
Math Practice

22. A shoe store is having a sale. The first pair of shoes sells for $40. The second pair sells for half price, or $20. The next pair sells for half of that, and so on. Create a table like the one below that tracks the total cost of the shoes as each pair is added. Stop when the selling price of the last pair of shoes is less than $1.50.

Number of pairs	Total cost
1	

Analyzing Visuals

23. Examine the figure below, then answer the questions that follow.



- **a.** What is the quantity demanded at a price of $20? At $15?
- **b.** What is the quantity supplied at a price of $10? At a price of $20?
- **c.** How large is the shortage or surplus at $5? Explain your answer.
- **d.** If the price started at $5 today, what would likely happen to the price tomorrow? Why?

Thinking Like an Economist

24. Economists like to use cost-benefit analysis to assess the merits of any program. Use this decision-making strategy to evaluate the desirability of continuing rent control. Write a paragraph describing your strategy and results.

Writing About Economics

25. Persuasive Writing Research newspapers and news magazines for recent articles about the minimum wage. Using what you have learned about price floors and the information in the articles, decide whether you favor or oppose raising the minimum wage. Write a 2-page paper outlining your views.

19. a. Demand for medical services would increase.
b. Supply for medical services would decrease.
c. New doctors would assess if they can make a profit in a given location. They may consider moving their practice to another state.

20. Students' answers should demonstrate an understanding of rationing. Possible allocation options include drawing numbers, school trivia contest, or using attendance as a basis for distribution.

21. Providers of school lunches may reduce their supply. At the same time student demand would increase, creating a shortage of school lunches.

Economics ONLINE

Have students visit the Web site at glencoe.com to review Chapter 6 and take the **Self-Check Quiz.**

Math Practice

22.

Number of pairs	Total cost
1	$40.00
2	$60.00
3	$70.00
4	$75.00
5	$77.50
6	$78.75

Analyzing Visuals

23. a. 3; 6
b. 3; 9
c. There is a shortage of 15; consumers demand 15 items but producers supply zero at that price.
d. Assuming that the demand is 1, the price would increase to at least $25. Producers would try to capitalize on the great demand and maximize their profits.

Thinking Like an Economist

24. Answers will vary but should demonstrate use of the cost-benefit analysis strategy to evaluate the positives and negatives of rent control.

Writing About Economics

25. Answers will vary. Students should support their opinions with logical arguments and information found in recent news articles.

DEBATES IN ECONOMICS

Focus

Before they read the selections, have students brainstorm reasons that college athletes should be paid. Write these ideas in a column on the board. Next, have students brainstorm reasons that college athletes should not be paid. Write these ideas on the board in another column. After they finish reading the section, ask students to review the reasons listed on the board, and pick the position they believe is best supported.

Teach

S Skill Practice

Using Tables and Charts Have students review and compare the NCAA Revenues and Expenditures charts. **Ask:** Do you think the figures in the charts support one of the two positions? Why or why not? *(Possible answer: The figures support the con position because total expenditures nearly match total revenues.)* **OL**

DEBATES IN ECONOMICS

Should College Athletes Be Paid?

College athletes—particularly basketball and football players—rake in millions of dollars for their universities and the National Collegiate Athletic Association (NCAA). Some people argue that these athletes deserve to be compensated for their role in generating this revenue, whereas others maintain that free-ride scholarships and the potential to "go pro" are more than enough compensation.

Can you sift through the debate to determine whether college athletes should receive more than a free college education for their efforts? As you read the selections, ask yourself: Should college athletes be paid?

PRO COLLEGE ATHLETES SHOULD BE PAID

Vince Young fakes the pass, pulls the ball down and runs for the game-winning touchdown in the national championship game. Those connected with Texas are smiling as one of the greatest players in its storied history has led the Longhorns to a national title. The higher-ups at the school had reason to smile much earlier. . . With the chance to claim a national title also came $3.5 million from the [Bowl Championship Series] directly to Texas and another $14.9 million distributed among the Big 12 conference teams.

The problem is, the athletes who help schools and conferences make that money do not see a dime of it. They may receive scholarships, but so do students who don't help the school make money in any way. . . . If schools can profit off of student athletes, why should those athletes not be paid for helping schools make money? . . .

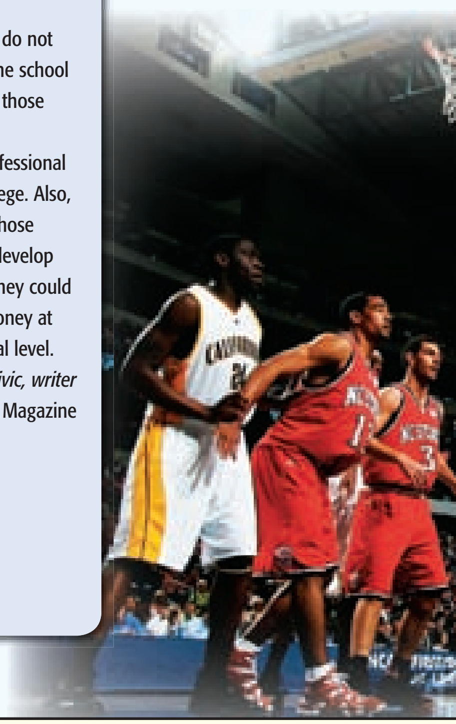
Paying [college athletes] would improve quality of play by keeping borderline professional athletes in college. Also, it would help those same players develop their skills so they could make more money at the professional level.

—*Andrew Zivic, writer for* iMPrint *Magazine*

S

NCAA Revenues	
• CBS broadcast and marketing rights, including Division I men's basketball tournament	$453,000,000
• ESPN broadcast rights for 21 championships, including Division I women's basketball, baseball, ice hockey, and softball	$13,000,000
• Other broadcast rights	$4,450,000
• Division I men's basketball tickets	$27,870,000
• Tickets for other Division I championships	$13,175,000
• Tickets for Division II and III championships	$705,000
• Investments, fees, and services	$8,790,000
• Membership dues	$1,010,000

Source: IndyStar.com, 2005–2006 NCAA Revenues



Additional Support

Extending the Content

Challenging the Tax-Exempt Status of the NCAA In 2006 Representative Bill Thomas, chair of the House Ways and Means Committee at the time, proposed revoking the NCAA's tax-exempt status. Citing corporate sponsorships, massive television revenues, costly state-of-the-art athletic facilities, and soaring coaches' salaries, Thomas raised the issue that college athletics are now functioning like professional sports. The representative wrote a letter to the NCAA asking how highly commercialized sports further the colleges' education purposes. Thomas pointed out that more than 35 college coaches receive annual salaries of at least $1 million and that universities spend up to $600,000 per men's basketball player each academic year. NCAA spokesman Erik Christianson defended his organization by explaining that athletics are a part of higher education and that colleges "educate student-athletes; they are students first."

CON COLLEGE ATHLETES SHOULD NOT BE PAID W

As my opening kick against this notion, please accept the obvious premise that college athletes do trade on their skill for financial gain. This gain is realized in the form of a scholarship. . . . Four (or five) years on a free ride at, say, the University of Michigan can cost a person well over 100,000 [dollars]. . . .

How much loot-gathering should be attributed to the play of [a] backup left guard? How about the second-string corner? Should there be a salary scale that bestows a stipend commensurate with the player's productivity? What a hayride that would be to administrate. . . .

Another problem with paying or subsidizing college athletes is the danger of tipping an already unbalanced playing surface. While it's assumed that most Division I schools are rolling in dough, reality finds many athletic departments in the red. At more than a few schools, some of the low-revenue sports often are sacrificed. Schools with huge football revenues—such as Michigan, Texas, Ohio State, and USC—would have an even bigger advantage if paying players became an option.

—Randy Hill, writer for FOXSports.com

NCAA Expenditures

* The NCAA maintains that 95 percent of its money is returned to the membership via direct payments or event services.

• Division I athletic departments and conferences	$129,435,000
• Division I conferences, based on performance in the men's basketball tournament	$122,800,000
• Division I academic support; need-based emergency aid for players; "student-athlete opportunity fund"	$55,357,000
• Division I championships and other programs, including team travel and officials	$55,100,800
• Division II and III expenditures	$39,411,000
• Association-wide expenses, including insurance, enforcement, communications, and legal services	$87,779,400
• General administration	$22,836,800
• Legal contingencies; president's reserve; endowment	$9,280,000

Source: IndyStar.com, 2005–2006 NCAA Revenues

Analyzing the Issue

1. **Identifying** What are the arguments in favor of paying college athletes to play?
2. **Summarizing** What reasons does Hill give against paying college athletes?
3. **Deciding** With which opinion do you agree? Explain your reasoning.

Assess/ Close

W Writing Support

Persuasive Writing Ask students to write a persuasive essay arguing in favor of the position opposite of the one they selected in the Focus activity. Students should address the concerns raised in the selections. **OL**

Analyzing the Issue

Answers:

1. schools make money from athletics; athletes should share in some of the profits; payment would encourage athletes to stay in school longer
2. a scholarship is substantial compensation; pay scales among athletes would be difficult to administer; low revenue sports would be sacrificed; schools with large football revenues would have unfair advantages
3. Answers will vary but should be supported with facts and logical arguments.

Additional Support

Activity: Collaborative Learning

Analyzing Information Organize students into small groups of three students each. Have each group interview 10 different college athletes about the issue debated in this feature. Instruct students that no more than two athletes interviewed can be from the same sport. Also, groups should select five male athletes and five female athletes to interview. Tell students to ask their subjects whether they think athletes should be paid and how they think such a change would affect them. Ask each group to present the results of their interviews to the class. Then, as a class, synthesize the data from all of the groups. Discuss any variations among the athletes' opinions based on individual sport or gender. **AL**