**Role of Prices**

* Remind me what equilibrium and disequilibrium are
* What are a surplus and a shortage?
* Prices will play a vital role in a market economy, for both the producer and the consumer
* Ever decide to return something because you found it somewhere else cheaper? Explain how prices are dictating economic actions
* There are a number of advantages to the price system in addition to providing a language for buyers and sellers to interact over
* Prices also serve as an incentive: think about the laws of demand and supply - explain
* Prices may also serve as signals: high prices are a signal to producers that? to consumers that? Low prices are a signal to producers/consumers?
* Prices also provide flexibility: it is much easier to adjust prices than production levels - explain. This is often seen when a supply shock hits (a sudden shortage of a good - see this more commonly with oil and agricultural goods) How can we deal with this sudden shortage of a good? Rationing?
* Another great thing about the price system is that it is free - explain
* Central planning takes lots and lots of government officials and money to carry out. The market does this free of charge with no additional government employees (save for all the rules created by the other government employees)
* The price system, as opposed to a command economy, also leads to a much wider selection of goods. How? Why? Think of the market for cellphones
* How can rationing lead to the black market?
* How can resources be allocated more efficiently through a market system (price system)? Think of getting a job
* All is not perfect with the price system, however. There are a couple market problems. Namely, imperfect competition (one or a few sellers dominating a market driving up prices and driving down choices), spillover costs or externalities (the pollution created as a byproduct that we all have to pay for and keeps their costs artificially low) and imperfect information (Volkswagen lying to everyone, consumers and government officials, about the emission levels of their cars.)

Assignment

Read pages 133-137 and explain what can cause equilibrium to shift (there are actually eleven things - don't need to explain all of them), what conditions lead to a surplus, what search costs are and create a "graph" showing a shift in demand, a shift in supply and the two new equilibrium points created by these shifts