Chapter 6 Section 3: Guided Reading and Review

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Section 3: Guided Reading and Review The Role of Prices

A. As You Read

As you read Section 3, answer the questions on the lines provided.

- 1. What overall, vital role do prices play in the free market?
- 2. What standard do prices set? _____
- 3. What signals do high prices send to producers and consumers?
- 4. Why do suppliers use price rather than production to resolve the problem of excess demand?
- 5. What drives the distribution system in the free market?
- 6. How does a price-driven economy allow for a wide diversity of goods?
- 7. What was the goal of the Soviet planned economy?
- 8. How did the Soviet economic system affect consumer goods?
- 9. How does the free market ensure an efficient allocation of resources?
- 10. What motivates suppliers to increase production in the face of high demand and high prices?
- 11. What three problems in the free market work against the efficient allocation of resources?

B. Reviewing Key Terms

Define the following terms.

- 12. supply shock _____
- 13. rationing _____

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14. spillover costs _____



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