



Section 1: Guided Reading and Review

Combining Supply and Demand

A. As You Read

As you read Section 1, supply the requested information in the spaces provided.

In the Case of the Pizzerias

- The market equilibrium price: _____
- The market supply level: _____
- The market demand level: _____

In Any Market Environment

- How equilibrium is shown on a supply and demand graph: _____

- Two possible outcomes of disequilibrium: _____

- Supplier price response to excess demand: _____

- Condition under which market forces will push market toward the equilibrium: _____

In the Case of Government Intervention

- Purpose(s) of rent control: _____

- Negative results of ending rent control: _____

- Effect on labor when minimum wage exceeds equilibrium: _____
- Purpose of Northeast Dairy Compact: _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank provided.

- When government wants to ensure that “essential” goods or services are within the reach of all consumers, it may impose a(n) _____.
- If prices rise too high, a market may face the problem of _____.
- The one and only price at which quantities supplied equal quantities demanded indicates the market _____.
- Minimum wage is an example of a government-imposed _____.
- If car manufacturers produce more or fewer cars than customers will buy, the car market will be in _____.



Section 2: Guided Reading and Review

Changes in Market Equilibrium

A. As You Read

As you read Section 2, complete the chart by supplying an effect for each cause.

Cause	Effect
1. Entire supply curve shifts.	1.
2. Technology for making compact disc (CD) players improved.	2.
3. After a drop in production cost, CD player suppliers become willing to offer 1,200,000 units at the original price, but demand remains at 1,000,000.	3.
4. Price of CD players continues to fall.	4.
5. Production cost of CD players continues to fall.	5.
6. Market's supply curve shifts to the left.	6. <i>In the market:</i> <i>On the equilibrium point:</i>
7. Demand curve of a good suddenly shifts right.	7.
8. Signs of excess demand for the good continue over time.	8. <i>On suppliers:</i>
9. Demand for a good falls.	9. <i>On the demand curve:</i>

B. Reviewing Key Terms

Rewrite each sentence so that the italicized term is used correctly.

10. *Shortage* occurs when the quantity demanded falls below the quantity supplied.

11. Excess demand for a good indicates a market *surplus* of that good.

12. Suppliers pay *search costs* in the form of financial and opportunity costs as they search for a good.



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? _____

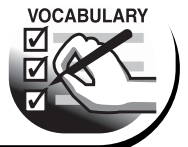
10. What motivates suppliers to increase production in the face of high demand and high prices? _____

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 _____
14. spillover costs _____



Vocabulary Practice

Complete each sentence below and use it as a clue to help you supply the missing letters in the corresponding numbered item. When you have finished, use the word formed vertically by the bracketed letters to write a true statement about prices.

1. _ [] _ _ _ _ _
2. _ _ _ _ [] _ _ _ _ _
3. _ [] _ _ _ _ _
4. _ _ [] _ _ _ _ _
5. _ _ _ _ [] _ _ _
6. _ _ [] _ _ _ _ _
7. _ _ _ _ _ [] _ _ _ _ _
8. _ _ _ [] _ _ _ _ _
9. _ _ _ [] _ _ _ _ _
10. _ [] _ _ _ _ _ _ _ _ _
11. _ _ [] _ _ _ _ _
12. _____

1. Government may hold down the price of apartments with ____.
2. Inequality between quantities supplied and demanded results in market ____.
3. Problem created when quantity supplied exceeds demand is excess ____.
4. Government-imposed maximum charge for a good is a(n) ____.
5. Quantities supplied in excess of quantities demanded result in a(n) ____.
6. Government-imposed minimum for a good or service is a(n) ____.
7. When supply and demand meet at a particular price, the market is said to be at ____.
8. Quantities demanded in excess of quantities supplied create a(n) ____.
9. Dividing up scarce goods and services without concern for prices defines ____.
10. Economists call a sudden shortage of goods ____.
11. Problem created when quantity demanded exceeds supply is excess ____.