

The Role of Prices | Worksheet



Matching

Match the definition in Column A with the term in Column B.

Column A

- _____ The desire and ability to buy a product.
- _____ The price where supply equals demand.
- _____ Prices that guide decisions for buyers and sellers.
- _____ When demand exceeds supply.
- _____ When supply exceeds demand.

Column B

- a. Equilibrium Price
- b. Price Signal
- c. Demand
- d. Surplus
- e. Shortage

Multiple Choice

1. What role do prices play in an economy?

- a. Prices only determine how much additional profit a producer makes.
- b. Prices help savvy consumers decide if they want to sell a product.
- c. Prices allow producers and consumers to efficiently communicate how much they value a good or service.
- d. Prices have no effectual influence on the coordination between producers and consumers.

2. In a free market, how is the price of a product determined?

- a. By the government controlling and setting prices.
- b. Through arbitrary haggling between consumers and producers.
- c. By the interaction between supply and demand.
- d. By consumers unilaterally deciding how much they will pay.

3. What does rising coffee prices signal to producers in the market?

- a. That they should stop producing coffee because demand is decreasing.
- b. That they should increase coffee production due to strong demand.
- c. That consumers are not interested in coffee anymore.
- d. That the price of coffee has no impact on other products.

4. When the price of a product drops significantly due to oversupply, what is the most likely response from producers in a free market economy?

- a. Producers will increase production to take advantage of lower prices.
- b. Producers will reduce production or shift resources to other goods.
- c. Producers will maintain production levels, anticipating consumer demand to rebound.
- d. Producers will lobby for government intervention to stabilize prices.

Application

Imagine you and your friends want to buy tickets for a popular concert. Initially, the tickets are sold for \$50 each, but as more people buy them, the price increases to \$150.

(see next page)



1. What does the price increase signal to other potential buyers about the concert tickets?
(Hint: Think about what it says about supply and demand.)

2. As the concert organizer, how would you respond to the increasing demand for tickets?
(Hint: Consider how prices might change based on demand.)

3. How might the price increase affect your decision to buy a ticket now versus later?

The Role of Prices | Answer Key

Matching

Match the definition in Column A with the term in Column B.

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- c. The desire and ability to buy a product.
- a. The price where supply equals demand.
- b. Prices that guide decisions for buyers and sellers.
- e. When demand exceeds supply.
- d. When supply exceeds demand.

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Sample Answer Key:

1. What does the price increase signal to other potential buyers about the concert tickets?

- *The price increase signals that demand for the concert tickets is high and that tickets are becoming scarce. Other potential buyers may understand that if they wait, the price could rise even further or the tickets could sell out.*
- 2. As the concert organizer, how would you respond to the increasing demand for tickets?
 - *As the organizer, I would continue to raise the price as demand increases to match the limited supply of tickets. This allows me to balance supply and demand while maximizing revenue from the event.*
- 3. How might the price increase affect your decision to buy a ticket now versus later?
 - *If the price has already risen to \$150, I might decide to buy the ticket now to avoid paying even more later or missing out entirely if tickets sell out.*

Guidance for Grading

- Price Signal:** Ensure the student explains that the rising price signals high demand and limited supply. The student should recognize that the price increase informs other buyers that tickets are becoming scarce.
- Concert Organizer's Response:** The student should recognize that as demand increases, the concert organizer would continue to raise prices to reflect the high demand. The response should show understanding of how supply and demand affect pricing decisions.
- Buyer's Decision:** The student should describe how rising prices influence their decision to buy a ticket now versus waiting. The response should show an understanding that delaying the purchase may lead to higher prices or the risk of selling out.