

## Standard 8 : Role of Price in Market System

### Students will understand that:

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

### Students will be able to use this knowledge to:

Predict how prices change when the number of buyers or sellers in a market changes, and explain how the incentives facing individual buyers and sellers are affected.

Understanding the role of prices as signals and incentives helps people anticipate market opportunities and make better choices as producers and consumers. It also helps citizens understand the consequences and weigh the costs and benefits of price controls, such as minimum-wage laws and rent ceilings, that set legal minimum or maximum prices and result in sustained surpluses or shortages.

### Benchmarks

#### Grade 4

At the completion of Grade 4, students will know that:	At the completion of Grade 4, students will use this knowledge to:
High prices for a good or service provide incentives for buyers to purchase less of that good or service, and for producers to make or sell more of it. Lower prices for a good or service provide incentives for buyers to purchase more of that good or service, and for producers to make or sell less of it.	Predict how consumers would react if the price of pencils rose to \$10 each (and explain the prediction). Predict how they would react if the price fell to \$ .01 each (and explain the prediction). Explain how producers would react in each situation.

#### Grade 8

At the completion of Grade 8, students will know the Grade 4 benchmarks for this standard, and also that:	At the completion of Grade 8, students will use this knowledge to:
An increase in the price of a good or service encourages people to look for substitutes, causing the quantity demanded to decrease, and vice versa. This relationship between price and quantity demanded, known as the law of demand, exists as long as other factors influencing demand do not change.	Survey students in other classes at school regarding how many glasses of orange juice students would be willing and able to buy at various prices. Analyze the data to show the relationship between price and quantity demanded. Identify the substitutes students use when the price is higher.

An increase in the price of a good or service enables producers to cover higher per-unit costs, causing the quantity supplied to increase, and vice versa. This relationship between price and quantity supplied is normally true as long as other factors influencing costs of production and supply do not change.	State the number of push ups they would be willing and able to supply at various prices. State a generalization about the relationship between price, cost, and quantity supplied from the data.
Markets are interrelated; changes in the price of one good or service can lead to changes in prices of many other goods and services.	Explain how a decrease in the price of VCRs can cause a decrease in the price of popcorn at movie theaters.
Scarce goods and services are allocated in a market economy through the influence of prices on production and consumption decisions.	Use flowcharts to illustrate the decisions of producers and consumers when the price of peanuts rises and when the price of oil falls, and explains why producers and consumers behave in this way.

## Grade 12

<b>At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:</b>	<b>At the completion of Grade 12, students will use this knowledge to:</b>
Demand for a product changes when there is a change in consumers' incomes or preferences, or in the prices of related goods or services, or in the number of consumers in a market.	Predict the change in demand for a particular brand of jeans when an extensive ad campaign for the brand targets teenagers, their allowances double, the price of corduroy pants skyrockets, or jeans become a popular item among adults.
Supply of a product changes when there are changes in either the prices of the productive resources used to make the good or service, the technology used to make the good or service, the profit opportunities available to producers by selling other goods or services, or the number of sellers in a market.	Predict the changes in supply and market price for domestic cars when the cost of labor increases, more robotics are used to produce cars, the prices of domestic utility vehicles rise, or when the number of imported vans increases.
Changes in supply or demand cause relative prices to change; in turn, buyers and sellers adjust their purchase and sales decisions.	Identify products that have become more or less expensive compared to other products as a result of changes in supply and demand and explain how the price changes affected

	production and consumption decisions.
Government-enforced price ceilings set below the market-clearing price and government-enforced price floors set above the market-clearing price distort price signals and incentives to producers and consumers. The price ceilings cause persistent shortages, while the price floors cause persistent surpluses.	Describe what is likely to happen if the government imposes a binding price ceiling on gasoline and a binding price floor on milk.