

## SECTION 1.8 MARKET PRICES COORDINATE ECONOMIC ACTIVITY

- · · Market prices communicate information about the relative availability of products to buyers, and they provide sellers with critical information about the relative value that consumers place on those products.

- · · The price system guides people's choices and produces solutions to the questions of what goods to produce and how to produce and distribute those goods. In countries that do not rely on the market system, there is no clear communication between buyers and sellers.

### Chapter Key Objectives And Concepts

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- · · **Price controls** are government policies that force prices above or below what they would be in a market economy. Price controls effectively strip the market price of its meaning to buyers and sellers.

- · · **Market failure** is when the market mechanism fails to allocate resources efficiently on its own. This usually occurs when an economic agent does not face all of the costs and benefits of an economic activity, e.g. pollution and scientific research. In this case, the government may be able to improve society's well-being by intervening in the market.

- · There is sometimes a painful tradeoff between efficiency and equity. There is no guarantee that the market economy will provide everyone with adequate amounts of food, shelter, and transportation.