Following are possible answers to the Reading Notes.

Section 2

1. Market equilibrium occurs at the point where buyers and sellers agree. At the equilibrium point, the quantity demanded of a product equals the quantity supplied of that product, thereby setting the equilibrium price that consumers will pay and the equilibrium quantity that consumers will buy.
2. Competitive markets move toward equilibrium because the law of demand and the law of supply work together to push prices to equilibrium. Consumers and producers communicate with each other through prices.
3. Metaphors should clearly illustrate that quantity demanded and quantity supplied balance each other to create equilibrium.

Section 3

1. prices set too low → disequilibrium → excess demand → shortages → price increase → equilibrium
2. prices set too high → disequilibrium → excess supply → surpluses → price decrease → equilibrium
3. The time it takes to reach equilibrium varies because the time it takes producers to change their prices to match consumer demand varies.

Section 4

See Guide to Notebook Handout.

Section 5

1. Possible summaries (symbols will vary):
   - Prices convey information to consumers and producers by signaling the opportunity cost of purchases to consumers and telling producers what types of products consumers want. Consumers can also compare products by price.
   - Prices create incentives to work and produce through their connection to the potential for profit. Prices motivate businesses to produce, and wages and salaries motivate workers.
   - Prices allow markets to respond to changing conditions by giving markets the flexibility to reach equilibrium even when natural disasters occur and disrupt supply.
   - Prices allocate scarce resources efficiently because, in order to make a profit, producers will make and sell the products that consumers demand.
2. After Hurricanes Katrina and Rita, U.S. gasoline prices increased quickly because of damage to oil rigs and refineries (supply). Consumers reacted to increasing prices by restricting their consumption of gasoline (demand) while more oil was shipped in from overseas (supply), thus decreasing prices.

Section 6

1. Price floor:
   - *Why enacted:* A government might enact a price floor because it feels that producers are not receiving an adequate price.
   - *Examples:* minimum price for farm products, minimum wage for workers
   - *Economic result:* excess supply, leading to a surplus of the product or the number of workers

   Price ceiling:
   - *Why enacted:* A government might enact a price ceiling because it feels that consumers are paying too much for a product. A price ceiling may be established in response to a crisis such as a war or natural disaster that decreases supply (thereby increasing price).
   - *Example:* rent control
   - *Economic result:* excess demand, leading to a shortage of the product
2. Drawings should clearly show that a price floor is *above* the equilibrium price and a price ceiling is *below* the equilibrium price.
3. A government might use rationing when a shortage of a product occurs. However, it is an expensive policy to enact and can give rise to black markets.

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