

## What's in a Price?

Value to Buyers...Cost to Sellers

- Prices are signals...  
...guide allocation of society's resources.

Should there be a price?

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## Should There Be A Price?

**"Once we see that markets and commerce change the character of the goods they touch, we have to ask where markets belong—and where they don't...."** -- Michael Sandel, *What Money Can't Buy: The Moral Limits of Markets.*

"We can't answer this question without deliberating about the meaning and purpose of goods, and the values that should govern them...."

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"Should we pay children to read books or to get good grades? Should we put a price on human life to decide how much pollution to allow? Is it ethical to pay people to test risky new drugs or to donate their organs? What about hiring mercenaries to fight our wars, outsourcing inmates to for-profit prisons, auctioning admission to elite universities, or selling citizenship to immigrants willing to pay?"

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## Should There Be A Price?

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"And so, in the end, the question of markets is really a question about how we want to live together. Do we want a society where everything is up for sale? Or are there certain moral and civic goods that markets do not honor and money cannot buy?"

Market Economics v. Market Securities  
*just about everything* *to what everything is for sale*

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What if we increase price?

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## Government Policies That Alter the Private Market Outcome

- Price controls
  - Price ceiling: a legal maximum
  - Price floor: a legal minimum
- Taxes
  - Buyers or sellers pay a specific amount on each unit bought/sold.

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Price Ceilings are like...

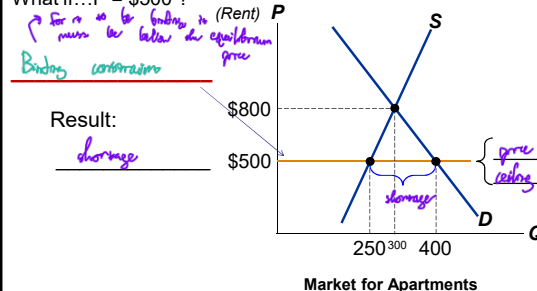
[ Image of balloons rising on the ceiling, with strings trying to go up but they can't ]

...a "lid" on a market.

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### How Price Ceilings Affect Market Outcomes

What if...  $P = \$500$  ?



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### Shortages and Rationing

- Who gets it ??
- Rationing mechanisms: 1) lottery 2) bidding 3) discrimination according to sellers' biases
  - Unfair
  - Inefficient - goods going to highest value user
- Prices as the rationing mechanism "work."

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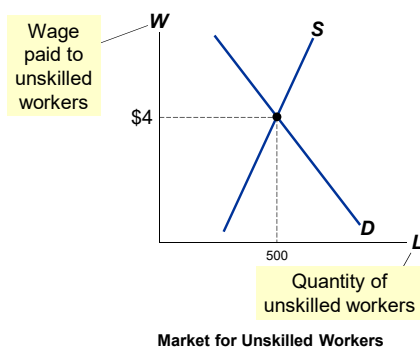
Price Floors are like...

[ another image, a sign at the ocean floor ]

...a "bottom" on a market.

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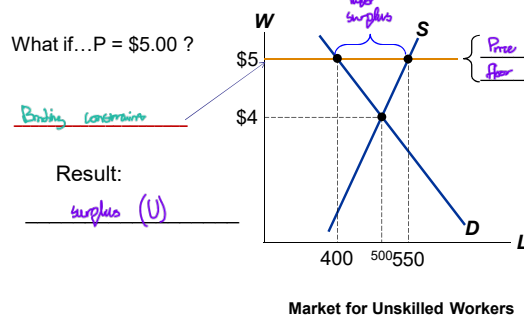
### How Price Floors Affect Market Outcomes



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### How Price Floors Affect Market Outcomes

What if...  $P = \$5.00$  ?



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