1.2.7 Price mechanism

a) Functions of the price mechanism to allocate resources: o rationing
   o *incentive*
   o *signalling*
b) The price mechanism in the context of different types of markets, including local, national and global markets

- The functions of the price mechanism:
   1. A rationing device- to ensure demand is equal to that supplied
   2. An incentive- the prospect of making a profit
   3. Signalling device for producer to change amount supplied
   4. To determine changes in needs- a change in demand will be reflected in a change in price
- Competitive markets:
   1. There are many buyers and sellers
   2. There is no single consumer or producer who can influence the allocation of resources or the price
   3. Consumers maximise their welfare and producers compete to provide consumers with what they want