

# Understanding Prices

The everyday numbers that change our lives.

Prices have three functions: 1) they transmit lots of information efficiently and effectively; 2) they give people an incentive to act; and 3) they see that people get paid.

Prices transmit lots of information because they are composites of everything that goes into making the product. A hamburger for \$8.00 is a composite of not just the meat, bun, lettuce, and tomato. It also includes the total cost of raising the cow, growing the wheat, planting and harvesting lettuce and tomatoes, shipping them to market, cooking the food, serving the meal, and washing the dishes.

Prices give people an incentive to act. Who ever turned down a two for one sale, or said No, that's too much?

Prices make it possible for people to get paid for their labor. If we charged less than \$8.00 for our hamburger, someone wouldn't get paid – the farmer, baker, or rancher, and they would not sell us their product. Then our hamburger would be less desirable and we wouldn't sell as many of them.

Relatively high prices are incentives for manufacturers to make more stuff and consumers to use less.

Relatively low prices are incentives for manufacturers to make less stuff and consumers to use more.

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