Sequence of Critical Thinking Activities around a SEE-I Paper

- Student engages in classroom Activity 1, using SEE-I Handout 1
  - Read, Think, Write, Speak, Listen about the content
- Student engages in classroom Activity 1
  - Read, think, evaluate using the standards, and speak about the content
- Student writes his/her paper at home
- Student re-writes his/her paper at home
  - Self evaluates using the standards, thinks deeper about the content, and writes

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SEEI Handout 2 – Write a SEEI paper in which you; State which element or principle of the price system is more significant in helping solve the economizing problem a society faces regarding energy. Elaborate upon why that concept is the most significant for you. Exemplify how the concept manifests in your work or personal life. Illustrate (in words) the concept by creating an analogy or metaphor to explain it.

The Price System and Markets: An economic system in which relative prices constantly change to reflect changes in demand and supply. Prices act as signals of relative scarcity to persons in the system. The benefits of a price system are high levels of economic efficiency, the existence of consumer sovereignty, promotion of personal freedom, and prevention of coercion of buyers and sellers by the existence of competition. The Price system is able to achieve that because it features the following elements and principles:

Rational Self-interest: the assumption that people do not intentionally make decisions that would leave them worse off.

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Voluntary cooperation and Exchange: Exchanges in markets are voluntary. Voluntary exchange is the act of trading between individuals on a voluntary basis, making both parties subjectively better off. As long as cooperation is strictly voluntary, no exchange will take place unless both parties do benefit. No external force, no coercion, no violation of freedom is necessary to produce cooperation among individuals all whom can benefit. It is important to recognize that in every exchange there is some kind of Transaction Costs. These are all of the costs associated with exchange, including the informational costs plus the costs of negotiating and enforcing contracts and of acquiring and processing information about alternatives. All trade is by definition is a positive sum game, because when two parties agree to an exchange each party must consider the goods it is receiving to be more valuable than the goods it is delivering. In fact, all economic exchanges must benefit both parties to the point that each party can overcome its transaction costs, or the transaction would simply not take place. Acquiring and processing information hence is important element in this process, without accurate and reliable information it becomes difficult to make “good” choices.

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The Price System is **self-adjusting**. When there is a change in demand or supply in a market, a shortage or a surplus develops resulting in a price change. The imbalance can be eliminated quickly or slowly, depending on the characteristics of the market, but the synchronization of decisions by buyers and sellers that creates equilibrium is what economists call the rationing function of prices. Prices are indicators of relative scarcity and ration goods to those who are willing to pay the most. Prices convey **information** to the players in a market regarding what is relatively scarce & relatively abundant. In its most ideal form, a price system allocates resources to their highest valued use through **voluntary exchange**.

**In-class Exercise:**
In recent years the price of oil has increased. The demand for natural gas has increased.

1. Are oil and natural gas substitutes or complements?
2. In one or two sentences, describe a positive and a negative outcome that could arise as a result of the connection (substitutes or complements) between oil and gas.

*Contributed by Professor Erick Perez*