#### Markets and The Price Mechanism

A market exists where there are buyers of a good (Demand) and sellers of a good (Supply). Examples of markets include the following:

* Supermarket where food is bought and sold
* International Commodity Markets such as the market for coffee, oil and copper
* Labour Market - the market that allocates our human resources and determines wage levels
* Foreign Exchange Market - the buying and selling of currencies around the global economy
* Stock Market – e.g. the FTSE 100 index or the Nasdaq index, where shares are bought and sold (SET in Thailand).

Note that there is not a market for certain goods. Eg there is no market for a drink which gives eternal life, as although there is a demand, there is no supply. Equally there is no market for sand in the desert. Lots of supply but no demand.

Prices play a vital role within a market economy. The **price mechanism** is the means by which millions of decisions of consumers and businesses interact to determine the allocation of resources between different goods and services. Firstly prices have a **signalling function** – if prices are rising because of stronger demand from consumers, this is a signal to suppliers to expand output to meet the higher demand. Higher prices act as an **incentive** to raise output because the supplier stands to make a **higher profit** from selling extra units.

Prices also serve to **ration** scarce resources when demand outstrips available supply. When there is a shortage of a product, the market price is rises – leaving only those with a willingness and ability to buy with the effective demand necessary to purchase the product. Conversely a glut (or surplus) of a particular product in the market will drive prices down.