

**ECONOMICS FOR
EXECUTIVES: THE
ORGANIZING FUNCTIONS
OF PRICES; PP. 7-50**

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Economics for Executives: The organizing functions of prices; pp. 7-50 by George E. Roberts

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GEORGE E. ROBERTS

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ECONOMICS FOR EXECUTIVES

**A SERIES OF TWENTY-FOUR
READING TEXTS WHICH CONSTITUTE
AN INTERPRETATION OF
THE UNDERLYING PRINCIPLES
OF ECONOMICS AND BUSINESS
FOR MEN AND WOMEN IN
PRACTICAL LIFE**

**EDITED BY
GEORGE E. ROBERTS**

**AMERICAN CHAMBER OF ECONOMICS
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NEW YORK**

READING TEXT X—ECONOMICS FOR EXECUTIVES

THE ORGANIZING FUNCTIONS OF PRICES

EDITED BY
GEORGE E. ROBERTS

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CONTENTS

	PAGE
I. CONTROL EXERCISED THROUGH PRICES.	7
II. APPORTIONING PRODUCTIVE ENERGY .	17
III. COORDINATING FACTORS OF PRODUCTION	23
IV. DETERMINING DIVISION OF INCOME .	30
V. ORGANIZING CONSUMPTION	40
VI. CHARACTERISTICS OF THE PRICE SYSTEM	47

THE ORGANIZING FUNCTIONS OF PRICES

I

Control Exercised Through Prices

There is no subject to which the business man necessarily gives more attention than that of prices. It is the margin between two sets of prices—the prices of the materials and services which he buys, and the prices which he gets for the products which he sells—that determines the profit of his enterprise. To adjust his activities successfully to the changing conditions of the markets, he must understand the factors which determine these prices; he must even look beyond the markets with which he is immediately concerned and study the general conditions affecting all markets. These markets are bound together by the system of prices.

Functions of the Price System

The business man engaged in buying and selling commodities is often unaware of the important functions performed by the system of prices. It is clearly evident that profit is

ECONOMICS FOR EXECUTIVES

the motive which actuates business, but it is not so evident how prices and profits organize the production and use of goods for the community at large.

Earlier study-units have foreshadowed the solution of this problem. Thus we have observed that if producers are to specialize they must trade with one another, but we have not referred specifically to the basis on which they shall trade. This basis, of course, is worked out through prices and through the relations of prices to one another.

Modern production, we have noted, is for the market, and is properly guided only when everything sells for the right market price. But when is this price right, when is it "fair," and just how is it determined?

Railroad rates are prices, rates of wages and of interest are prices, securities are issued in consideration of the prices they will bring and their prices on the stock exchange register roughly the changes that are taking place in society's needs for capital; these examples, drawn from preceding study-units, illustrate how the idea of trade and exchange has underlaid our study of all the branches of production. The fact is that a full understanding of prices, of markets, and of trade in general, is necessary not only for business reasons, but for the purpose of understanding fully many