

I Don't Want Much, I Just Want More: Allocation, Competition and Productivity

Name: _____ Date: _____

Directions:

1. What is the most common method for allocating resources in the United States?
 - a. Force
 - b. First come-first serve
 - c. Counting the number of freckles on each person's nose
 - d. Markets**

[Answer d: The two major ways of allocating resources in the United States are through government and through markets. Of these two, most allocation, in terms of value, is through markets.]

2. Cooperation:
 - a. Is impossible because as long as there is scarcity people will compete for more.
 - b. Is desirable because people can produce more when they cooperate.**
 - c. Requires that people be willing to sacrifice their own well being to make other people better off.
 - d. Is best achieved when government takes things from people who have too much and gives those things to people who don't have enough.

[Answer is b: People can produce more when they cooperate by taking the concerns of others into consideration. This cooperation is possible without people sacrificing their own well being when markets are working well. Market prices make it possible for producers to make greater profits by cooperating with consumers--producing those things that consumers value most as communicated through their willingness to pay. Consumers best pursue their interests in markets by cooperating with each other--with each buying additional units of a product only as long as it is worth more to her than it is worth to others, as communicated by the product's price.]

3. Market allocation of goods and services:
 - a. Works the same way as government allocation of goods and services.
 - b. Always works best when there is no government.
 - c. Only helps rich people get more at the expense of poor people.
 - d. Requires government to protect property rights and enforce the rules of market exchange.**

[Answer is d: Markets only work well when people can buy and sell private property and voluntarily agreed upon prices. But this requires government preventing theft (allocating by force) and enforcing the rules of voluntary (market) exchange.]
4. The biggest advantage of allocating through markets is that it:
 - a. Motivates people to produce more of the goods and services that people want most.**
 - b. Eliminates scarcity faster than other ways of allocating.

- c. Makes sure everyone gets as much as they want.
- d. Doesn't require any government involvement.

[Answer is a: No method of allocation can eliminate scarcity, or provide people with all that they want. The advantage of the market is that it motivates people to compete for more by paying for what they value most, which provides suppliers with the ability and the motivations to use our scarce resources to produce more of those products that people value most. But markets only work well when government protects private property and enforces the rules of market exchange.]

5. Which of the following best describes the benefit and cost of allocating a good by first come-first serve?
- a. Benefit—people compete by producing more of the goods they want.
Cost—rich people will get most of the good.
 - b. Benefit—people like waiting in long lines because it gives them a chance to rest.
Cost—rich people will not get any of the good, but neither will poor people.
 - c. Benefit—it gives people without the opportunity to make much money working a better chance to compete successfully for the good.
Cost—the competition doesn't result in more of the goods people want being produced.**
 - d. Benefit—it is the best way to allocating those goods that aren't scarce.
Cost—people tend to get in fights when they are waiting in line for goods that aren't scarce.

[Answer is c: Allocating by first come-first serve favors those who have the lowest opportunity cost of waiting in line, or those without the opportunity to make much money. But, as opposed to paying for a product, the sacrifice people make waiting in line does not benefit those making the product available, and so does not motivate the production of more of it.]