

Resource Allocation

Introduction and Description

It is important for students to understand how society's scarce resources are allocated among their many possible uses. This lesson asks students to analyze the effects of a change in demand or supply in one market on the equilibrium position in a related market. Activity 2-1 assumes the product and resource markets are perfectly competitive.

Objectives

1. Explain that markets do not exist in isolation from other markets. A change in one market can have an effect on the demand and supply in another market. It is important that students recognize these *secondary effects* of the initial change.
2. Students should distinguish between a change in demand or supply and a change in quantity demanded or quantity supplied.
3. Point out the role played by price in a competitive market in the allocation of resources to higher value uses.

Time Required

One and a half class periods or 68 minutes

Materials

Activity 2-1

Bell Ringer

Can you think of a market for a good or service you use that will be affected by a rapid rise in the price of gasoline? How is this market affected?

Teacher Alert: Students often miss questions that require them to know the difference between a shift of a demand or supply curve and a movement along the curve. This lesson gives them valuable practice developing this skill.

Procedure

1. Have students brainstorm about markets that are somehow related to each other. Have them post these markets on the board and link them with arrows. Ask them if these are product markets or factor markets.
2. Ask students if they feel the allocation of resources through a pure market economy is better than the allocation of resources through a command economy. Be sure the discussion includes the role of prices in such an allocation. What information do consumers and sellers get from the price of a good in a competitive market that they would not receive in a command economy? (*Prices in a competitive market indicate the value consumers place on the items and the costs to sellers of producing the item.*)
3. Have students complete Activity 2-1. Discuss the results of their work.