Workshop 3
The Government's Hand

Description

This workshop session explores the role of government in a market economy. The classroom activities emphasize that government protects property rights, corrects market failures, provides for pure public goods, and provides other goods and services. Kendra Cheese's ninth-grade class at Lakewood Senior High School in Colorado participates in a simple but effective simulation, which shows how the protection of property rights conserves and develops resources.

The workshop also demonstrates why government policies can fail. Public-choice theorists believe politicians and government officials are as self-interested as businesspeople. For these reasons, they respond to concentrated special interests over the diffused interests of the general public. Steve Reich's class at Valhalla High School in New York uses the "Corny Fuels Mystery" to illustrate public-choice theory.

Finally, government policies can cause unintended consequences, many of which are harmful. This is particularly true of price ceilings and floors. The unintended consequences of shortages and surpluses are demonstrated by Heather Anderson's class at Eau Gallie High School in Melbourne, Florida, and Dee Mecham's class at Kamehameha High School in Honolulu.

Key Concepts

- Private ownership of property provides incentives that promote economic progress. An important function of government is to protect property rights.
- The economic functions of government include enforcing laws and contracts, maintaining competition, protecting property rights, redistributing income, providing public goods, and correcting market failures.
- Government policies can fail as easily as the market can fail. Public-choice theorists believe politicians and government officials are as self-interested as businesspeople. However, instead of trying to maximize profits, "political entrepreneurs" seek to maximize power, salaries, prestige, and votes. This behavior results in government waste and inefficiency.
- Government policies can have unintended consequences that negate the intended effect of those policies. Price ceilings and floors are examples of this type of government policy.

Voluntary National Content Standards in Economics

The activities shown in this workshop illustrate the following standards:

- Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy. (Content Standard 10)
- There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income. (Content Standard 16)
- Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. (Content Standard 17)

Workshop Session

Getting Ready (15 minutes)

1. Brainstorm on all the goods, services, and types of protection that local, state, and federal governments provide. Make a list.

2. Brainstorm on all the local, state, and federal taxes we pay for these goods, services, and protection.

3. Discuss whether we receive good value from governments for the goods and services they provide and we pay for.

Watching and Discussing the Video (90 minutes)

1. View Section One (property rights). (15 minutes)

2. Read and discuss Lesson 3.1, "Property Rights Simulation." (15 minutes) In small groups, answer these questions about the simulation:

- What did Kendra Cheese do to make the simulation work?
- Would the simulation work as well if Kendra paid the students in extra-credit points or pieces of candy?
- Would the simulation work as well if the students could not keep the money?
- What concepts should students learn from this simulation, and what should the teacher do to make sure the students learn these concepts?

3. View Section Two (incentives and public policy). (13 minutes)

4. Discuss the mystery approach to teaching economics. (17 minutes) Form small groups and discuss the elements of creating your own mystery. Some things to consider are clipping news articles that seem odd, developing a primary proposition, developing an opposing proposition, writing the mystery, exploring students' questions and misconceptions about economics, and focusing on the economic principles that explain the mystery.

5. View Section Three (price floors), Section Four (price ceilings), and Section Five (price controls). (30 minutes)

Closure (15 minutes)

In small groups, answer the questions in Lesson 3.2, "Price Floors and Ceilings." Compare the group's answers to the suggested solutions.

Lesson 3.1: Property Rights Simulation

"Property Rights Simulation" was created by John S. Morton. A version will appear in *Economics in Action,* by Jane Lopus and Amy Willis, National Council on Economic Education, 2003.

Overview

An important function of government is to protect property rights. Ownership of private property is a key component of a market economy. Private ownership of resources creates incentives for owners to use those resources wisely. Because owners receive the benefits of their property, they generally try to use it in the most valuable way. This can provide both private and public benefits for society.

This simulation shows that ownership of property encourages wise stewardship of that property, encourages people to develop and use their property productively, provides an incentive to use their property in ways beneficial to others, and promotes the conservation of resources for the future.

The absence of private ownership creates incentives to abuse the resource. "The tragedy of the commons" is an expression dating back over 150 years. William Frank Lloyd attributed the destruction of pastures to overuse because no one owned "the commons." Today, the tragedy of the commons can be seen in the destruction of the environment and the failure to protect endangered species.

This simulation simplifies property rights. Private ownership involves not only legal protection against non-owners, but also the right to exclusive use and the right to sell or transfer the property to other owners. Nevertheless, the simulation clearly shows why lack of ownership creates incentives leading to "the tragedy of the commons."

Materials

- At least 10 paper clips
- Nickels and dimes
- Two transparencies—one blank and one divided into six squares

Procedures

1. Gather six volunteers around an overhead projector. Put 10 paper clips, which represent fish, on the projector and turn it on. Tell the students they fish for a living. Some have families who depend on their ability to catch and sell fish. If they catch fewer fish, or if the price of fish declines, they and their families suffer. You can also use other animals, such as whales, tigers, or elephants.

2. Begin round one, which consists of two 30-second time periods. Tell the students you will give them 5 cents for each paper clip (fish) they give you during the first 30-second period. If they wait until the second 30-second period, you will give them 10 cents for each paper clip. Only paper clips left over at the end of the first 30 seconds will be available to be picked up during the second period.

3. In almost all cases, all the paper clips are picked up in the first 30-second time period, and there is no second 30-second time period. Pay the students.

4. Before beginning round two, put a transparency divided into six squares on the overhead projector. Put one or two paper clips in each of the six squares. Put at least one paper clip across a line so that it isn't in one specific square. Explain to the students they are still fishers. However, now they own the fish in their squares. No one else can touch his or her fish without permission. If someone takes a paper clip from another student's square, he or she will have to return it and pay a $10 fine. Otherwise, follow the same rules as in round one. If students give you a paper clip in the first 30 seconds, they get 5 cents. If they give you a paper clip in the second 30 seconds, they get 10 cents. Only the paper clips left over at the end of the first 30 seconds can be picked up during the second 30 seconds.

5. Begin round two. It is likely that only the paper clip(s) on the line will be picked up during the first 30-second period. Perhaps a student who isn't into deferred gratification will pick up his or her paper clip, but it is unlikely. Give 5 cents for any paper clip given to you. Begin the second 30-second time period. All paper clips should be picked up. Give 10 cents for each paper clip.

Debriefing

1. Why do the students think everyone grabbed the paper clips in the first 30 seconds of round one? *(No one had property rights. If a student waited too long, another student would get the paper clip and the money even though the paper clips were worth twice as much in the second 30 seconds.)*

2. Why did the students wait until the second 30 seconds to pick up the paper clips in round two? Why was the paper clip on the line probably picked up in the first 30 seconds? *(The students controlled [owned] their paper clips, so they could wait and get more value for them. It wasn't clear who owned the paper clip on the line.)*

3. How did assigning property rights change the incentives for the players? *(Because the students could control when their paper clips would be picked up in the second round, they received the benefits of waiting. When there were no property rights [round one], waiting meant getting no money at all.)*

4. Why are there so many chickens and so few whales? *(Chickens are privately owned. If farmers killed their chickens, they would not have any to sell in the future. But whales roaming the oceans have no owners. Whalers have no reason not to kill whales right away, before other whalers do. To hold back risks the opportunity to harvest and sell a whale someone else could kill first. The lack of ownership creates a great danger to whales.)*

Lesson 3.2: Price Floors and Ceilings

"Price Floors and Ceilings" is from *Advanced Placement Economics: Microeconomics: Student Activities,* by John S. Morton, National Council on Economic Education, 1996.

Price floors and ceilings can be plotted with supply and demand curves. Use the chart to answer the questions. Fill in the answer blanks and, where applicable, circle the correct word in parentheses.

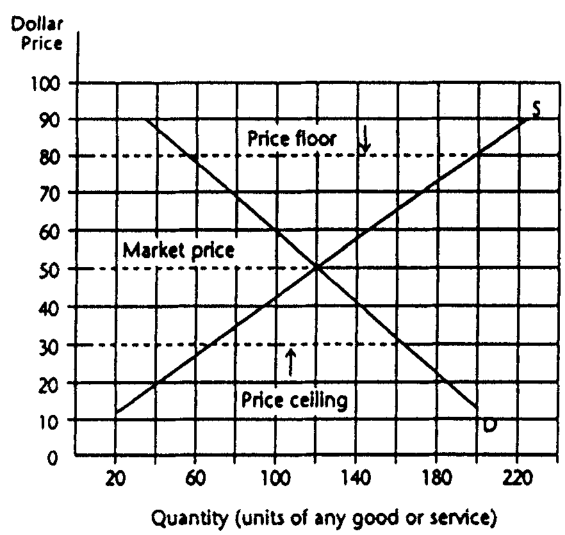
1. What is the market price? ________________

2. What quantity is demanded and what quantity is supplied at the market price?
   a. Quantity demanded ________________
   b. Quantity supplied ________________

3. What quantity is demanded and what quantity is supplied if the government passes a law requiring the price to be no higher than $30? This is called a *price ceiling.*
   a. Quantity demanded ________________
   b. Quantity supplied ________________
   c. There is a *(shortage/surplus)* of ________________.

4. What quantity is demanded and what quantity is supplied if the government passes a law requiring the price to be no lower than $80? This is called a *price floor.*
   a. Quantity demanded ________________
   b. Quantity supplied ________________
   c. There is a *(shortage/surplus)* of ________________.

A Price Floor and Ceiling



Suggested Solutions—Lesson 3.2: Price Floors and Ceilings

Price floors and ceilings can be plotted with supply and demand curves. Use the chart to answer the questions. Fill in the answer blanks and, where applicable, circle the correct word in parentheses.

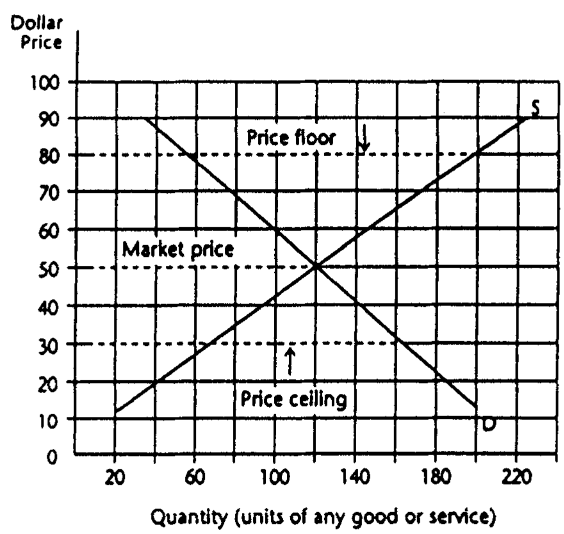
1. What is the market price? **$50**

2. What quantity is demanded and what quantity is supplied at the market price?
   a. Quantity demanded **120**
   b. Quantity supplied **120**

3. What quantity is demanded and what quantity is supplied if the government passes a law requiring the price to be no higher than $30? This is called a *price ceiling.*
   a. Quantity demanded **about 160**
   b. Quantity supplied **about 60**
   c. There is a **shortage** of **about 100.**

4. What quantity is demanded and what quantity is supplied if the government passes a law requiring the price to be no lower than $80? This is called a *price floor.*
   a. Quantity demanded **about 60**
   b. Quantity supplied **about 200**
   c. There is a **surplus** of **about 140.**

A Price Floor and Ceiling



Notes