



POWELL CENTER FOR  
ECONOMIC LITERACY

*Lesson Plan*

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## Price As An Allocator

### Time Required

15 Minutes

### Grade Level and Subject

Middle and High School; Social Studies

### Keystone Principles

Principle #4 – Economic Systems Influence Choices

### Voluntary National Content Standards in Economics

Voluntary Standard #3 – Allocation of goods and services.

### Economic Concepts

**Opportunity Cost** - *The opportunity given up when choosing between two alternatives, with the decision in favor of one opportunity being at the cost of the other. The opportunity lost or given up.*

**Price** - *The cost of purchasing a good or service. The rationing device utilized to allocate scarce resources to their most productive uses in a free market economic system. The means used in a market system of allocating and coordinating economic activity in unregulated markets.*

**Resources** - *The inputs to the production process, used to produce goods and services, to satisfy the wants and needs of consumers. Factors of production; land, labor, capital, technology, and entrepreneurial skills.*

**Scarcity** - *Considered **the** economic problem, scarcity is the constant struggle of attempting to meet unlimited wants and needs with limited resources.*

## Overview

Market economies allocate resources through the use of prices. There is a question of “fairness” that people often ask when faced with this price allocation. Those with money are able to obtain the good or service, while those with less money may have to do without. This lesson takes a look at alternative methods of allocation and is based on a portion of Dr. Gerry Swanson’s *De-Mystifying Economics* series. It will get students thinking and talking about the issue, so you may want to plan more than 15 minutes to allow for a fuller discussion.

## Objectives

- Students will understand why price is used as a means of allocating goods and services in a market economy.
- Students will evaluate alternative methods of allocation.

## Materials and Handouts

List of wants

## Teaching Activity

- Offer your students something you know they will like – candy, tickets to an after-school movie, a homework pass. Have only enough to satisfy a small part of anticipated demand. Ask your students to bid on the items.
- If you have picked things the students desire, they will bid higher and higher amounts until the demand for the good equals the existing supply. This will leave most students empty-handed.
- Before distributing the items, ask the students who placed the winning bids to explain, in economic terms, why they were willing to pay the higher price (*answers should generally state that the purchase price was lower than their opportunity cost*).
- Ask the students who dropped out of the bidding whether they felt that the auction was “fair”. Were they satisfied with the results?
- Make a show of wanting to be as fair as possible. Tell the class you will cancel the preceding auction and offer the good or service in question using a different criterion. State that you will make the items available to all left-handed people. Ask for a show of hands for those qualifying. If more qualify than you have items available, choose as secondary criterion anyone wearing a particular color.
- Ask the class whether they felt this auction was more “fair”.
- Tell the students you would like for them to devise a truly “fair” method of allocating the items. Have them make a list of the requirements they think would make a method of allocation truly fair, such as “everyone has an equal chance to get it” or “those who really need something (as distinct from wanting it) will get it”
- Ask them to suggest alternatives to price allocation and write the suggestions on the board. If they are slow to think of alternatives, help them with some suggestions of your own. As you mention these methods, provide real examples of how they are used.
  - Athletic ability – this is how students are chosen for sports teams
  - Age – the legal drinking age of 21; senior discounts at movies and restaurants

- Grades – impact acceptance into college
- Height – most business CEO’s are taller than average
- Hair color – do blonds really have more fun? Are punked out colors more desirable among certain groups of people?
- Very thin people – a requirement for most models
- First come, first served – standing in line to buy concert tickets
- Lottery system
- Friendship with the distributor\*
- Bribery \*
- \*If you introduce these allocative mechanisms to high school students, be prepared for the snickers and paths down which an ensuing discussion might lead (“sleeping one’s way to the top” or social corruption to name but two). Although some of the examples they might bring up could be distasteful, if this is what your students observe in life, it may provide an opportunity for you to frame some of their thinking.
- Distribute the handout or display it for all students to see. Go through the list and work through each point discussing the chosen allocative method. You might want to include some items that would be uniquely valued in your own school or by your students that might not be considered particularly valuable in the larger society.
- If your students did not mention a need-based criterion, mention it as another possibility. They will encounter this argument often, so this is a good time to investigate it. Remind students of how subjective such a statement is - how would the degree of need be objectively determined? Who makes the determination?
- Ask students to compare each of the methods they list against their definition of what constitutes “fairness”.
- Consider this following:
  - Prices do discriminate, but so does any other allocative mechanism, because we cannot escape the fundamental reality that resources are scarce.
  - Whatever allocative mechanism is used, people will undertake to acquire it.
  - What is the societal cost to the allocative mechanism of their choice?
  - Is it reasonably easy to acquire the chosen allocative mechanism?

**Rolex Watch**

**Sailboat**

**Electricity**

**Public Transportation**

**Rock Concert Tickets**

**Clothes**

**House**

**Food**

**A Lexus**

**Fresh Fruit**

**Television**

**Cell Phone**

**Pet**

**Cigarettes**

**iPod**

**Refrigerator**

**Gasoline**