



## **Political Versus Market Choices Lesson Plan**

This activity was created by Dr. Joab Corey with the assistance of Dr. James Gwartney. The game may be used for educational, non-profit purposes.

### **LESSON DESCRIPTION**

This lesson gives students an opportunity to identify the differences between the outcomes of allocation of goods and services based on political decision-making and majority rule, versus the outcomes based on individual decision-making in a market economy; students are able to experience the more efficient results that market-based allocation can generate, compared to political allocation.

### **INTRODUCTION**

Voting for a representative in a two party democratic system can be like picking between two shopping carts containing different goods—some of which you may desire, while others you do not. Choosing under this form of organization differs from the choice available in a market-based system. In a perfectly competitive market system, individuals only buy those goods in which they are willing to pay. As a result, choices generally make people better off.

In a two party democratic system, people use tax dollars in order to get only those goods that are selected by the outcome of a majority vote. In this system, there are both “winners” and “losers.” Plus, the total gains are usually smaller than what can be realized if people are free to choose.

With all of this in mind, the following activity demonstrates how the outcomes of market allocation can differ from democratic political allocation based on majority vote.

### **LESSON OBJECTIVE**

Students will:

- Explain the differences between the allocation of goods and services based on political decision-making and majority rule, versus the allocation of goods and services based on individual decision-making in a market economy.
- Compare the differences in outcomes of allocation resulting from the political versus the market system.

### **TIME REQUIRED**

- One class period

### **CONCEPTS**



- Political allocation
- Market allocation
- Gains from trade
- Win-win outcomes
- Win-lose outcomes

## MATERIALS

- Activity “Political vs. Market Choices.” This two page activity is best printed single sided. One copy per student is needed.
- Two representative baskets of goods may be displayed in the front of the class to make the activity more visually stimulating and engaging.

## Procedures

1. Handout the activity sheet and read through the instructions. Start with Cart 1. Relative to the stated price, ask students to rate each item in the cart on a scale of minus (-) 10 to plus (+) 10 and insert the values relative to price in the space provided.
2. Do the same for Cart 2.
3. Instruct students to total up the values in each cart (with negative values subtracting from the total and positive values adding to it). At the bottom of each column, write the total value for each cart in the space provided in the last row of each table.
4. Let students know that they are now members of democratic government. In this government, political control is exercised by all the people, either directly or through their elected representatives. For class purposes, let students know that their elected representatives have selected the items in Cart 1 and Cart 2. Additionally, they have registered a \$75 tax on each person to pay for the items bundled in the carts. The winning cart will be decided by a direct vote, and the majority vote will determine which cart goes to each person. Each person has a vote.
5. Looking at their own column totals, ask students to vote in favor of either Cart 1 or Cart 2. The instructor can ask students to vote by a show of hands, using a personal response device, or casting a secret paper ballot. (The secret ballot method allows the instructor to build suspense and reveal the winning cart during the next class period).
6. Announce the winner after identifying which cart receives the majority of votes.
7. Inform students that each student will receive each item in the winning cart in exchange for \$75 (tax dollars). That is, everyone pays \$75 dollars for the items in the winning cart, even those individuals who did not vote in favor of it. Explain that the “will” of the majority now moves forward regardless of the views of the minority.
8. Ask students who did not vote in favor of the winning cart to discuss how they feel about being forced to “purchase” the items in the winning cart. Encourage them to use economic reasoning to explain why they are dissatisfied, unsettled, or upset: the overall value of the winning cart was *less* than their preferred cart. Their monetary resources were used inefficiently and the winning cart is inferior to their preferred cart.
9. Explain to students that when a democratic political system using majority rule is used to allocate resources, the “will” of the majority comes at the expense of the minority.



Additionally, value is lost by forcing the minority to “purchase” an inferior bundle of goods. This is what economists and other social scientists call a “win-lose” situation.

10. Now, ask students to step back from the political allocation model. Ask them to revisit the items in both carts. Let them know that they now have a personal budget of \$75 and they are free to choose which items to purchase across both carts in order to purchase their ideal bundle of goods. Their only constraint is that they must stay within their budget; they need not spend everything. (Note to instructor: Encourage students to focus on those items in Cart 1 and Cart 2 with the most positive values. They have already revealed a preference for them.)
11. In the “Free Market Table,” ask students to record their (i) desirable items, (ii) purchase prices, and (iii) values in the space provided. Remind them to stay within their budgets.
12. In the “Free Market Table” instruct students to sum up the prices and values. In the spaces provided in the last row, record the totals.
13. With a show of hands, ask students if anyone ended up with a negative total in the value column. There should be no show of hands. Point this out to students. Explain that when individuals are free to choose only win-win situations unfold. In a market economy, purchases do not take place unless consumers perceive that they are gaining value given the stated price. That is, only “win-win” transactions occur.
14. Ask the class to look at the total purchase price of their bundle. By show of hands (or using a student responder), ask how many people spent less than \$75 in choosing their ideal cart. There should be a small number of students who did not spend everything. Point out that what is not spent now can be set aside for future consumption, investment, or emergency expenses.
15. Between the political versus market method of allocation, ask students to discuss which method of allocation generates the highest value and produces the most savings. That is, ask students whether it was the political or the market system of allocating \$75 that resulted in producing the highest value of bundle of items. Point out that only allocation through a free market results in savings.

## **EXTENSION ACTIVITIES**

1. For smaller classes, you can calculate the “society” figures for the two forms of organization. For the majority rule method of organization, simply sum the total value derived by each student or “citizen” from the bundle of goods included in the cart chosen by the majority of students in the class. This sum will include the low totals derived by those in the minority who were forced to consume their inferior bundles. For the market form of organization sum the total value derived by each member of the class as recorded in Market Allocation Table. Compare the two “society” figures. For larger classes, you can collect the student’s worksheets, calculate these figures outside of class and present them at your next meeting.
2. It is also interesting to compare the price totals under the two scenarios. Under the political scenario, the total cost to “society” or the class is derived by multiplying \$75 by the number of participating students. Under the market scenario, the total cost to society is determined by the stated price of each item chosen by students in Market Allocation Table. (This would require them to keep track and record that number as part of Market Allocation Table.)



3. To add a progressive tax element, tell all students that those who have earned As or Bs so far have to pay triple the cost of the cart (\$225), while all students who have Ds or Fs in the class so far would pay one-third the cost of the cart (\$25). Students with Cs would pay the standard \$75 cost of the cart. (Also, if you like, whatever their cost is, assume they have that same cost as their budget constraint for part 3. This should lead to some lively discussion about why people at different income levels may prefer different levels of government involvement, and at what efficiency cost to the nation.) If it is not feasible to use student scores in the class to divide students into the different groups (either because they have not had any assignments yet, do not know where they stand, etc., then you could use some other variable such as SAT score, GPA, or even by alphabet using the first letter of their last name. You could then ask students how they feel having to pay three times as much for a cart of goods that includes things they did not want just because they have excelled so far in the class (or in school, or on the SAT, or because of their name, etc., depending on whichever variable you use to separate the groups).

### **Discussion and Feedback:**

However you decide to implement the activity, it will likely generate some interesting class discussion. After the activity concludes, you can explain to students how the majority-rule method of allocating resources favoring interests of special groups in society is similar to the way the government currently provides goods; cross out items like “Fixodent denture cleanser” and “Skittles,” and write in “Medicare” and “subsidized education” instead. The overall message is that the government provides a lot of goods and services, and forces people to pay for them through taxes (whether they necessarily want to or not). In comparison, the market provides most of these goods and services to only those people who value them and are willing to pay for them.

### **Questions For Thought**

1. Why did the market-based method of choice used in the Market Allocation Table provide more value to most (or all) people than the political-based method of choice used in the Political Allocation Table? *In markets there is a direct link between those individuals who purchase an item and its cost (price). Individuals have incentive to allocate their limited resources (money) efficiently, and consequently, they limit consumption only to those items that result in value relative to price. Savings may occur if individuals decide not to spend. In the political arena, individuals are taxed and therefore must consume even though it may not be in their self-interest. Additionally, there are winners and losers when resource allocation is decided by a majority vote. Inefficiencies consequently emerge.*
2. Consider the differences between private goods and public goods, and what characteristics make a good or service to be a "public good." Private goods are goods that are rivalrous and excludable. Public goods are goods or services that are joint consumption goods (i.e. non-rivalrous) and are also non-excludable. Do to their nature of non-rivalry and non-excludability, the private sector tends to undersupply public goods; that is, producers in the marketplace tend not to supply enough of the public goods as what would be socially optimal.
  - a. Were the items in this activity private goods or public goods? *Private*



- b. Based on this activity, does the economic way of thinking indicate that it is socially beneficial for the government to provide private goods? Explain. *No, gains from purchases were greater when resources (money) were allocated privately.*
  - c. Provide some examples of private goods that the government is currently supplying. *Postal service, education, trash collection, electricity, parks, etc.*
  - d. What makes public goods different from private goods? *Public goods are non-rivalrous (i.e. they are joint consumption goods), and they are also non-excludable, making it difficult if not impossible for private producers to cover the costs of producing them. In a market economy, producers supply goods and services to those consumers willing to pay. To cover costs of production, producers must provide consumers with higher value relative to price. Otherwise, goods and services will remain on shelves. As Adam Smith stated, "The sole purpose of production is consumption."*
  - e. Why may it be difficult for the market to provide public goods? Provide examples of public goods supplied by government. *Once provided, producers have a difficult time only restricting sales to those who pay or reap benefits. Because costs exceed revenue, producers in a free market society turn to supplying other goods and services, even though the other (public) goods may be socially beneficial. National defense and a just legal system are two examples.*
3. What are the implications of this activity with regard to the ability of the "majority rule" criteria to allocate goods efficiently? *It is unlikely that resources allocated by "majority rule" vote will result in efficient outcomes.*
4. Notice that each cart contains items that might be preferred by a specific demographic. For example, Cart 1 contains Fixodent denture cleanser which would be preferred by an older population, as well as Johnson's baby formula which would be preferred by those with young children. It also has Tampax tampons which would likely be preferred by females, and an electric beard trimmer which would likely be preferred by males. How does this relate to the promises made by a political party? *Elected officials have incentive to select those goods and services of value to their constituents and others with established voting records in their party's favor. Would it make sense to offer these things bundled together in a single package, or should we allow individuals to choose which items to buy and how much to spend on them? Economic reasoning indicates that markets better serve individuals and society because they link the allocation of goods and services to benefits and costs. Only those individuals who benefit from a purchase and are willing to pay the stated price will receive the goods and services in the marketplace, and individuals are not forced to consume. In the political arena, there are winners and losers and everyone is forced to spend via taxes.*
5. Ask the class how many people spent less than \$75 to form their ideal basket of goods in a free society as recorded in the Market Allocation Table. Point out that these people likely got both a higher value *and* spent less money through the market method of choice than through the political method of choice (and that a greater benefit at a lower cost is the epitome of economic efficiency). Showing the class the U.S. debt clock may be worthwhile



here: <http://www.usdebtclock.org/> Draw attention to unfunded liabilities. These are financial responsibilities government has taken on without consideration for funding them.

### POLITICAL VS. MARKET CHOICES ACTIVITY

Please take a look at the two baskets of goods listed below. For each item in the basket, indicate how much you desire or value that particular item relative to the purchase price on a scale from -10 to +10, with +10 being the highest. For example, if you really desire the item so that you would gain an incredible amount of value from it after paying the stated price then assign a positive number. The more you value the item relative to its price, the closer your number should be to +10. Similarly, if you do not value the item at all and would be unhappy if you were forced to purchase the item at the stated price, then give it a negative number. The more upset you are with being forced to sacrifice money in order to purchase an item that you do not want, the closer this number should be to -10. If your value and the indicated price are close, then assign a 0 to the item.

1. For each item in Cart 1, establish a value relative to price. Record that value in the last column in Cart 1. Add up all the values for Cart 1 and write that total in the table's last row.
2. Do the same for Cart 2.
3. Circle the cart with the highest total value.

### POLITICAL ALLOCATION TABLE

Cart 1			Cart 2				
		Price (in \$)	Value (-10 to 10)		Price (in \$)	Value (-10 to 10)	
1.	Pantene Pro-V shampoo – 13 oz.	\$3		1.	Crest Toothpaste – 3 oz.	\$2	
2.	Avatar on DVD	\$15		2.	Titanic on DVD	\$14	
3.	Any laundry detergent – 24 oz.	\$5		3.	Downy fabric softener – 20 oz.	\$3	
4.	Johnson's baby formula – 26 oz.	\$8		4.	Huggies diapers – jumbo pack (31 ct.)	\$13	
5.	Fixodent denture cleanser	\$6		5.	Adjustable heating pad	\$26	
6.	Skittles candy – king size	\$1		6.	Snickers candy bar – king size	\$1	
7.	Tampax tampons – 1 box (24 ct)	\$7		7.	Revlon lipstick – one tube	\$6	
8.	Electric beard trimmer	\$24		8.	Protein bars – 1 box (6 ct.)	\$6	
9.	Kellogg's Frosted Flakes cereal – 1 box	\$3		9.	Kellogg's Strawberry Pop-Tarts – 1 box	\$3	
10.	Almonds – 6 oz. can	\$3		10.	Extra sugar free gum – 1 pack (15 ct.)	\$1	
	TOTAL:	\$75			TOTAL:	\$75	

Total Value of Cart 1: \_\_\_\_\_

Total Value of Cart 2: \_\_\_\_\_



4. You now have to vote on which cart you want. Your vote will be tallied up with all other student votes and the cart that receives the most votes is the cart of items that you would get. Please indicate which cart you would like to vote for by circling your choice below:

**Cart 1                      Cart 2**

What is the total value you would receive from the cart that received your vote? \_\_\_\_\_

What is the total value you received from the cart that won the election? \_\_\_\_\_

5. Now imagine that you have a budget of \$75 and you could go through and choose which items to buy from both carts. This means that you can choose to buy only the items that give you a positive value and not buy the items that give you a negative value. You can choose to spend all \$75 or less than that if you prefer—you just can't spend more than \$75. What would your total value be if you made choices in this way?

### MARKET ALLOCATION TABLE

**Items Selected from either Cart 1 or Cart 2.                      Purchase Price                      Value**  
**Budget: You may purchase up to \$75 worth of goods                      (\$)**                      **(-10 to 10)**

1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			
16.			
17.			
18.			
19.			
20.			
	<b>Total</b>	<b>\$</b>	



6. The method of choice described in the Political Allocation Table is representative of what we experience when we vote for politicians who promise to provide a bundle of goods and services to everyone, regardless of who voted for them. The method of allocation in the Market Allocation Table embodies what we experience when we make privately self-interested decisions in the marketplace. Which method of allocation gives you the highest value? *Marketplace*. Which method of choice generates the highest value in “society,” or your class? *Marketplace*