Activity -- A Property Rights Simulation

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Key Economic Concepts and Terms

- Incentives matter. (Common Sense Economics: Part I)
- Too often long-term consequences, or the secondary effects, of an action are ignored, unanticipated or unexpected. (Common Sense Economics: Part I)
- Private ownership encourages wise stewardship. (Common Sense Economics: Part II)

Instructions for the activity

Scenario. Ask students to imagine they are responsible for watching over the Northern Atlantic Ocean. Ask them to assume the role of ocean producers and to identify what production opportunities lay before them. The majority will likely pinpoint fishing as their main production alternative. Now ask for eight to ten student volunteers.

1. Spread 100 paper clips or pieces of scratch paper on the floor or on a large table. While doing so, tell students that (i) incentives matter, and (ii) too often long-term consequences, or the secondary effects, of an action are ignored, unanticipated or unexpected. Once the volunteers are in the "fishing" area, let the "fisher" students know that they will earn 1 bonus point for each paper clip they "catch" in the first of two thirty 30-second fishing derbies. BUT, if they postpone fishing the first period, their catch will be bigger and worth twice as much in the second derby. In the second period, the supply of fish is less while demand for fish is constant. Consequently, 2 bonus points will be awarded to each fish caught in the second derby. Say "Go" and watch what happens.

2. In almost all cases, all the "fish" are caught in the first 30-second derby, and there is no second period. Take the fisher students names and record their catches. Ask them to sit down. Now invite the class of students to comment on what they believed provided the fisher students with incentive to over fish the area. Discuss how the secondary effects of their actions were ignored, unanticipated or unexpected. Discuss the long term consequences.

3. Relate this classroom experience to the findings reported by Canadian Broadcast Corporation (CBC) in "Fished Out: The Rise and Fall of the Cod

Fishery." While viewing the video clip "Sounding the Alarm" (runs 2:06 minutes) ask students to answer the following questions.

a. What motivates the fisher people to fish?
b. Why are the stocks of fish dropping?
c. Who reaps the benefits of the fishing catches?
d. Who bears the cost of fishing in the short run? In the long run?
e. What are the long run or secondary effects of over fishing?
f. Explain why incentives matter. Why could connecting the people who reap the benefits to those who bear the costs in the short AND long run promote wise stewardship in the ocean?

4. Tell students that private ownership can and does encourage wise stewardship. This will be illustrated in Game 2. Now, place ten sheets of paper to indicate a plot on the "ocean" floor. Divide 100 paper clips and place sets on each of the ten sheets. Ask for ten new student volunteers and assign each student ownership over one of the ten sheets of paper. Let them know you are the water patrol, and anyone who touches another person's paper clips will be fined 10 fish. Otherwise, the rules are the same as in the previous game.

5. Begin the new game. Most, if not all, "fisher" students will wait until the second 30-second period. Perhaps a student who seeks instant gratification will pick up a paper clip in the first period, but it is unlikely. Give the students two bonus points for each fish caught.

6. Ask: "Why was there a difference between Game 1 and 2?"

7. Ask: "How did assigning property rights change the producers' incentives?" The producers controlled [owned] their natural resources in Game 2, so they could wait, anticipate future consequences, and, consequently, realize a higher rate of return on their productive investments. In Game 1, there were no clear property rights. It was unclear who owned what and who was responsible for the future cost of actions. So the producers made decisions that did not take them into account.

Related Activities

For another complementary activity, see the College and High School Instructor's Manual that accompanies the DVD video clips Microeconomics from John Stossel – College Edition or Microeconomics from John Stossel – High School Edition" by James Gwartney, Joseph Calhoun, John Morton, and Mark Schug. The DVD containing both the clips and the Instructor's Manual is available from ABC Newstore.

For a high school version of this simulation, see "Lesson 4: Property Rights in a Market Economy," *Economics in Action – 14 Greatest Hits for Teaching High School Economics*, National Council on Economic Education, 2003.