

## The Allocation Exercise

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### Economics

- deals with the allocation of Scarce Resources
- what to produce, how to produce it, who gets it...
- a crucial issue in the international global economy

### Class exercise

Here is a Butterfinger. Who wants it?

How should we *allocate* the Butterfinger?

Give it to:

- First student who raises his/her hand
- Student who resembles my sister
- Victor of a fight
- Winner of a race
- Person who needs them most (Skinny, skipped breakfast...)
- Auction it off to the one willing to pay the most

Each method varies in degree of efficiency and fairness.

- It is **efficient** if the one who wants it most gets it.....
- It is **fair** if each has an equal chance to get it...

The predominantly Market Economy of the U.S. uses the price system to allocate goods amongst consumers. It is efficient but not always fair. The Socialist System is fair but not always efficient. Elements of both systems are observed to varying degrees in the Mixed Economies of today.

***First Handout, to be distributed at the end of the exercise, before the synopsis:***

*Reflection*

What is the main idea of this exercise?

How does this relate to the course?

*Assignment*

Describe two allocation methods.

What are the advantages and disadvantages of these methods?

Can you list examples of various mechanisms in practice?