

How Prices Help To Allocate Scarce Resources

ACTIVITY 1: Ranking Scarcity

Identify each of the following as scarce (S) or not scarce (N). Rank these items that are scarce in order of relative scarcity from least scarce (1) to most scarce (10).

| ITEM | SCARCE OR NOT SCARCE? | IF SCARCE, RANK |
|---|-----------------------|-----------------|
| 1. Garbage | | |
| 2. A gallon of purified water | | |
| 3. A compact disk | | |
| 4. A pencil | | |
| 5. Air | | |
| 6. A sports car | | |
| 7. Annoying noise | | |
| 8. A ticket to a movie | | |
| 9. Traffic congestion | | |
| 10. A pair of high quality shoes | | |

QUESTION

Explain what you used as an indicator of relative scarcity (how did you decide the rankings?).

How Prices Help To Allocate Scarce Resources

ACTIVITY 2: Prices & Scarcity

Identify whether the following events will cause the product to become relatively more (M) or less (L) scarce, and whether the price will rise (R) or fall (F) as a result.

| MARKET | MORE OR LESS SCARCE? | PRICE RISE OR FALL? |
|--|----------------------|---------------------|
| 1. Coffee A frost wipes out the coffee crop in the two major coffee producing countries, Brazil and Colombia. | | |
| 2. Cola Most cola drinkers become convinced that cola is bad for their health, causing heart disease. | | |
| 3. U2 concert The rock group U2 clones itself, so that there are now 100 U2 groups performing around the world. | | |
| 4. Gasoline Summer arrives and people decide to drive long distances for vacation. | | |
| 5. Water A drought causes the water supply to drop to 50% of its normal level. | | |
| 6. Cellular phone People become convinced that cellular phones are protection against roadside crime. | | |
| 7. Computer Many new computer producers begin production, lured by high profits in the industry. | | |
| 8. Nurse The product is a nurse. Many people decide not to enter the nursing profession; many older nurses retire. | | |
| 9. Small truck Many people decide small trucks are their vehicle of choice. | | |
| 10. Audiotape People decide that compact disks, not tapes, are the way to listen to music. | | |

QUESTION

In general, what can you say about the price of a good or service when it becomes more scarce? less scarce?