

Tools for Teaching the Arkansas High School Economics with Personal Finance Course

Session 2: **Allocation**

Session Description

In this session, students explore the ways scarce resources are allocated.

Standards and Benchmarks (see page 2.8)

Talking Points

1. People face scarcity of marketable resources (land, labor, capital, and entrepreneurship). This scarcity limits their ability to earn income.
2. Because of limited income and limits to their time, people must make choices about allocating/rationing what is available.
3. There are many possible allocation/rationing methods.
4. There are costs and benefits to every method of allocation/rationing. Selection of an allocation/rationing method does not eliminate scarcity.
5. Market economies are based on the willingness-and-ability-to-pay allocation/rationing method.
6. Command economies are based on the fiat method of allocation.
7. Economics investigates the choices people make as individuals and groups regarding methods of allocation/rationing when faced with scarcity.

Resources

NOTE: See p. v for instructions on how to set up an [Econ Lowdown](#) account and assign resources found in the Resource Gallery to your students.

Audio Q&A

Allow time for students to listen to the podcasts and answer the questions:

- Economic Lowdown Audio Series—The Role of Self-Interest and Competition in a Market Economy (10:00)
<https://www.econlowdown.org/resource-gallery/economic-lowdown-audio-series-episode-3-the-role-of-self-interest-and-competition-in-a-market-economy>
- Economic Lowdown Audio Series—Price Signals (15:00)
<https://www.econlowdown.org/resource-gallery/economic-lowdown-audio-series-episode-12-price-signals>

Reading Q&A

Allow time for students to read the essay and answer the questions:

- *Page One Economics*®: Prices: The Marketplace’s Communication System
<https://www.econlowdown.org/resource-gallery/prices-the-marketplaces-communication-system>

Lessons

Allow time for students to complete the lessons:

- Lesson 2A: Possible Allocation Methods (see p. 2.3 in this session)
- *High School Economics*, 3rd Edition (email acee@economicsarkansas.org to order this book)
 - Lesson 2: Allocating Scarce Resources
Visuals and activities for this lesson can be found at <https://highschooleconomics.councilforeconed.org/>

Lesson 2A:

Possible Allocation Methods

Objective

Students will identify the allocation methods used in various situations found in newspaper and/or magazine articles.

Time Required

Two class periods

Materials

- Visuals 2A.1 and 2A.2, one copy of each for the teacher
 - Handout 2A, one copy cut into 3 “Get Out of a Quiz Free” cards OR 3 other items used to give a pass on homework or to provide extra-credit points
 - A different newspaper and/or magazine article for each group of 3 to 4 students that illustrates scarcity and allocation. For example, an article about the homeless may indicate that beds are provided based on a lottery (random draw), or an article about college may indicate that entry is based on test scores (performance).
 - A sheet of paper for each student
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Procedure

1. Distribute a piece of paper to each student. Have students write one word that they think describes what economics is about fundamentally. Have each student share his or her word. (*Answers will vary but could include money, business, investing, resources, or choices.*)
 2. Tell students to think about the word “scarcity.” Ask the following:
 - What does it mean when something is scarce? (*There is not enough of it for everyone who wants some of it.*)
 3. Explain that economics is fundamentally about scarcity; that is, productive resources— land, labor, and capital resources—are limited and people’s wants for goods and services are unlimited. The first thing most people think of when they hear the word scarcity is not having enough income to buy all the goods and services they want (the basic personal finance problem). Incomes are limited because the quantity and quality of the resources people have available for earning income are limited. People often say that their time is scarce. Again, this is related to resources—
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human resources—there’s a limited amount a person can do and many things that the person wants to do. People may say that space is scarce, an idea that is related to limited natural resources—that is, there is not enough space for all the ways we would like to use the space we have.

4. Show the class a card from *Handout 2A: Get Out of a Quiz Free!* (or other item used to give a pass on homework or provide extra credit points).
5. Ask the students how many of them would like to have this card, which allows them to skip a quiz or have a low quiz score removed. (Likely most of the class will want one.) Explain that labor resources, use of printers, and so forth were limited, so that you have only three of these passes. As a result, the class must decide who in the class will get the cards.
6. Ask the class to suggest ways the cards could be allocated. Note that rationing is another term for allocation. As students share, record the methods on the board. (For a list of general categories to use, refer to *Visual 2A.1: Possible Allocation Methods*, but do not show the visual yet. Let students come up with the categories on their own).
7. Ask the students to describe exactly how each suggested allocation method would work. For example, if someone suggests “by height,” write down “Personal Characteristic” and then below that write “height” and ask the student to explain how that would work. Help provide explanations as necessary. For example, if a student says “height,” suggest that everyone could be lined up along the wall from tallest to shortest and you could select the three tallest students (or the three shortest students). If a student says “by auction,” which would fall into the “Willingness and Ability to Pay” category, explain that each student could secretly write down the maximum they would be willing and able to pay for a card and then you could give the cards to the three highest bidders. If a student says “a lottery,” which would fall into the “Random Draw” category, explain that everyone’s name could be placed in a hat and three names could be drawn. For each category noted, ask if there are other methods that could fall under that category. For example, for personal characteristics, weight and age could also be used. Guide students as necessary and continue until the students have come up with ideas that represent most of the methods shown on *Visual 2A.1*.
8. Display *Visual 2A.1* and review any allocation methods that the students didn’t note.
9. Divide the students into groups of 3 or 4. Give each group a newspaper or magazine article and ask them to identify what is scarce and which allocation method is used in each case. Display *Visual 2A.2: Group Instructions* and review.
10. Have each group present their findings.

Closure

11. Have students generate a list of allocation methods and examples.

Visual 2A.1: Possible Allocation Methods

- 1. Random Draw**
By luck, by lottery, by drawing out of a hat, etc.
Examples: drawing cards for shelter beds, choosing Vietnam War draftees, determining a Powerball winner, selecting a raffle or door-prize winner
- 2. Personal Characteristic**
By age, by weight or height, by ancestry, alphabetically by name, by need, etc.
Examples: government benefits (e.g., Social Security, welfare, Indian health services), organ transplants, basketball starters
- 3. Performance**
By test score, by 10K race results, by quantity of sales, by number of push-ups, etc.
Examples: scholarships, promotions, awards, sport/game winners
- 4. Willingness and Ability to Pay**
By the amount of cash, goods, or services one is willing and able to sacrifice
Examples: most everything in a market-based economy: pizzas, houses, cars, toys, college education, personal electronics, etc.
- 5. First Come, First Served**
By who is first in line, first on a list, first to a stop sign, etc.
Examples: goods in the former Soviet Union, an intersection with a four-way stop sign, immigration into the United States, tickets to a popular concert, restaurant reservations
- 6. Fiat (Authority)**
By authority/whim of the allocator (e.g., teacher's pet, parent's favorite, dictator's choice)
Examples: rules, use of resources (e.g., a dictator decides if his or her country's resources are going to be used to produce housing or military equipment), punishment
- 7. Voting**
By majority rule—who gets the greatest amount of votes
Examples: selection of congressmen, allocation of public resources by Congress, selection of prom king and queen
- 8. Multiple Methods**
By combining two or more of the above
Example: tickets to a popular concert (you must be willing and able to pay the ticket price and at the proper place in line to purchase the tickets [first come, first served])

Visual 2A.2: Group Instructions

As a small group, complete the following:

- Read your article.
- Develop a summary to share with the class.
- Identify what is scarce.
- Identify the allocation method used.

Handout 2A: Get out of a Quiz Free!

**Get out of a
quiz FREE!!!**



**Get out of a
quiz FREE!!!**



**Get out of a
quiz FREE!!!**



Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.1: Students will understand the impact of economic decision-making. This includes the exchange of goods and services; role of producers, consumers, and government in the marketplace; and growth, stability, and interdependence within a global economy.

Content Standard E.2: Students will understand the impact of economic decision-making. This includes considering the marginal costs and benefits of alternatives.

- **E.2.ECON.2:** Evaluate the roles of scarcity, incentives, trade-offs, and opportunity costs in decision making (e.g., PACED decision making model, cost/benefit analysis)
- **E.2.ECON.3:** Justify various economic solutions to problems affecting an individual or society using marginal cost and marginal benefit analysis.

Content Standard E.3: Students will understand the exchange of goods and services. This includes different allocation methods and changes in supply and demand, the role of producers, consumers, and government in a market economy; and the degree of competition among buyers and sellers in markets.

- **E.3.ECON.1:** Identify various allocation methods used in different circumstances, countries, and economies (e.g., price, auction, lottery, first come, first served, personal characteristics, a contest/performance-based, fiat, or a combination).
- **E.3.ECON.3:** Analyze the role of consumers in a market economy.
- **E.3.ECON.4:** Analyze the role of producers in a market economy.