

Experiment 3

Goods and Services That Are, or Have Been, Illegal to Buy or Sell

- drugs
- alcohol
- gambling
- abortions
- human body parts (for transplants)
- children (for adoption)
- prostitution
- endangered species
- yellow ~~ed~~ margarine

Goods and Services That Are, or Have Been, Regulated

- gasoline, natural gas (maximum price)
- apartment rent (maximum price)
- interest payments
- (maximum interest rate - why Citibank is based in South Dakota)
- food (quality controls - e.g. utility beef)
- trucking (routes set, prices regulated)
- airlines (routes set, prices regulated)
- telephone service (prices regulated)
- automobiles (various regulations - e.g. airbags)
- smoking (banned in public areas in many places)
- milk (in many places, can't be shipped across county lines)
- legal services (bans on advertising, other controls)
- eyeglasses (ban on advertising for many years)
- lawn sprinkler installation (licensed in Texas)

Buyers

- Half the buyers are "addicts," half are recreational or casual users.
- Addicts lose ★20 if they fail to consume, but gain ★30 if they do consume.
- Recreational users value the substance at ★15.

Sellers

- Sellers can sell up to two units.
- Sellers bear a fixed cost of ★20.
- A seller can only go to the market maker once.
- Thus to sell two units, the seller must bring both buyers to the market manager *at the same time*.
- A seller may bring one buyer, but still pays a cost of ★20.

Experiment 3.2 & 3.3

- Police (the market manager) confiscate and destroy one unit from each transaction.
- If a seller brings one buyer to the market manager, the unit is confiscated, the buyer gets and pays nothing. Thus the seller makes a loss of ★20.
- If a seller brings two buyers to the market manager, the market manager will flip a coin, and one unit will be confiscated, but the other transaction gets through to the market. Thus the seller's cost is ★20 (cost of 2 units).
- The unfilled buyer returns to the market and may try to trade.
- Sellers who do not approach the market manager for a transaction lose nothing, and break even.

Experiment 3.4

- Experiment 3.4 is similar to experiment 3.3
- However, the market manager is corrupt.
- The market manager will attempt to sell any confiscated units to the marketplace.

Food for Thought

- Is it better to perfectly enforce a speed limit, or no parking rule, or imperfectly enforce it?
- Why not tax illegal drugs, rather than ban them?
- Are there legal commodities that should be prohibited?
- Is it better to punish sellers or buyers? Why?
