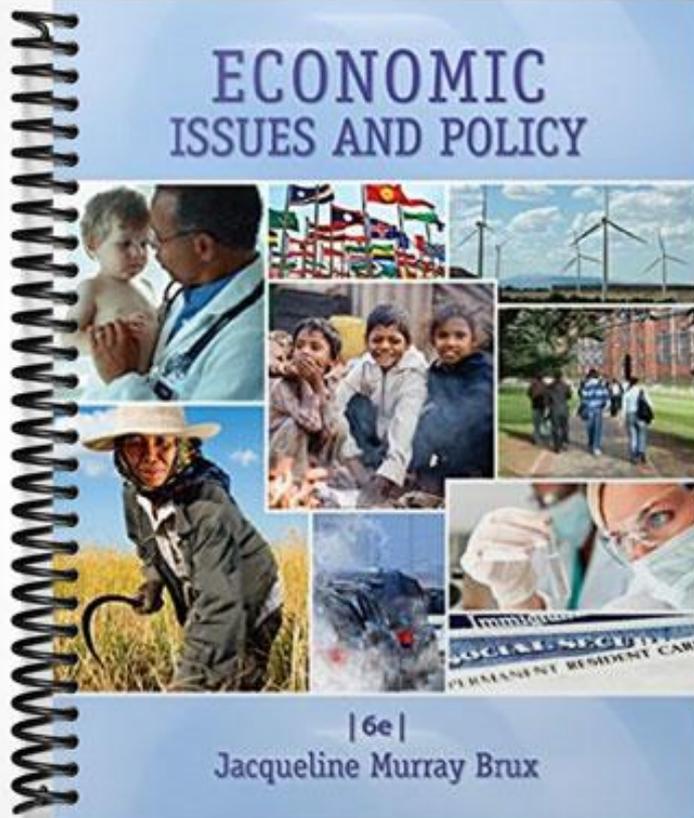


TEST BANK

ECONOMIC ISSUES AND POLICY



| 6e |

Jacqueline Murray Brux

2

Crime and Drugs

PURPOSE

Among students, the issue of crime and drugs seems to be one of the most popular of the social issues discussed in the text. Students will certainly have many opinions on the topic, especially about the legalization of drugs. We can use their interest to introduce them to the topics of public goods and services, cost-benefit analysis, elasticity of demand, and excise taxes. I've avoided the "marginal benefits equal marginal cost" framework for policy evaluation on the basis that it is very abstract and confusing to students, as well as unnecessary at this level.

LEARNING OBJECTIVES

The learning objectives for this chapter are:

1. to enable the student to recognize a public good or service and help them to understand the justification for government provision of these.
2. to reinforce the student's understanding of production possibilities as well as demand and supply.
3. to acquaint the student with cost-benefit analysis and to enable the student to understand the economic argument for and against legalizing "victimless crimes."
4. to initiate the student's exposure to elasticity of demand.
5. to acquaint the student with government regulation and excise taxes on drugs.
6. to assist the student in recognizing some of the multicultural and global dimensions of crime.
7. to illustrate the economic conservative and liberal viewpoints on crime and its prevention.

LECTURE SUGGESTIONS

- Students may believe that *any* additional expenditures on crime prevention are good, so we must once again emphasize the idea of opportunity cost. This is also a good occasion to reinforce student understanding and application of production possibilities, as well as demand and supply. Price elasticity of demand is also discussed in relation to addiction issues and the topic is expanded in Appendix 2-1.
- Look at the competition for state funding among corrections, health care, and education. Find data for these programs for your state and trace the changes in recent years. What changes have resulted from the War on Drugs, as well as more recent recognition of the difficulty of maintaining spending on corrections at previous levels? This is a good way to elaborate on opportunity cost, as mentioned in the suggestion above.
- When discussing public goods, look at the way the definition can be stretched a bit in the real world (in the sense that public parks and libraries are not completely nonexcludable, for example). Ask the students if roads, fire protection, parks, education, and libraries have all of the characteristics of public goods, at least to some extent.
- Discuss the government taking responsibility for the provision of the public good vs. the government actually producing the public good.
 - The material on the legalization of drugs is controversial and for some students highly emotional. I try to be careful not to discourage a variety of views on the subject. (Some students might suggest that legalization would reduce the demand for drugs because the allure of the “badness” is gone. Reinforce their use of logic by recognizing that this is indeed a possibility.)
 - Ask, “Is there such a thing as a victimless crime?”
 - Ask the students to read the police reports on their local news web sites to see what crimes are of local concern. In my small college town, underage drinking, marijuana possession, shop-lifting, public urination (and now vomiting), and domestic abuse seem to dominate the *Police Beat*.
 - Ask the students if they participated in project DARE or other antidrug programs in high school. Then ask if they think the programs were effective. Do they have better ideas? This is a great topic to stimulate discussion early on in the course.
 - It’s difficult to present material on global, racial, and ethnic diversity without risk of embarrassment to some students, especially if those students are in a small minority within the class. It’s important to be careful not to single out individual students and not to assume that they represent all students within their group.
 - This might be a good time to introduce the topic of recent controversial police killings of African American men, as well as discrimination within law enforcement. It is also a good time to discuss hate crimes and what constitutes such a crime. Newer studies show that the number of hate crimes as stated by the FBI and reported in the text are grossly underreported.

- Discuss with students the reasons why the death penalty is more expensive than a life sentence in prison. They will generally disagree, despite the evidence.
- The section, *You, the Student*, can assist students in finding treatment for themselves or a friend.
- Drug legalization and/or regulation provides an opportunity to contrast the difference between economic and social conservative viewpoints, and economic and social liberal viewpoints. Take this opportunity to explain the difference to students, as students will be confused by this distinction and often insist that government regulation is an economic *conservative* position.
- You may find that the web sites mentioned in the *Discussion and Action Questions* and in the *Notes* at the end of the chapter are useful to you in preparing lectures or conducting your own research. Your students may find your encouragement to review class notes on a daily basis, to practice re-drawing all graphs, and to learn the definitions in the margins to be very useful.

ANSWERS TO TEXT DISCUSSION AND ACTION QUESTIONS

1. A public good or service has unique characteristics (indivisible, nonrivalrous, and nonexcludable) that make it unlikely that the private market will provide it in sufficiently quantity. Therefore, the government provides it. National defense is a good example of a public good (though as we know from the Iraqi invasion and other recent missions, private firms are often hired to assist with national defense). Other examples include public libraries, public transportation, public parks, roads and highways, fire protection, and so on.
2. The free-rider problem arises when someone receives benefits from the provision of a good or service, but does not pay. (People prefer not to pay if they can nevertheless benefit.) An example would be child immunizations. If sufficient families paid for vaccinations for their children, the “herd effect” would be enough that families that do not pay for immunizations for their children would nevertheless receive protection as the spread of disease is lessened. Another example is fire protection, as one person’s home is protected when their neighbor’s home has a fire put out when this home-owner pays for fire protection.
3. If a good is indivisible, it cannot be divided into small, manageable units to be sold on the market. If a good is nonrivalrous, one person’s receiving benefits from it does not preclude others from benefiting. If a good is nonexcludable, persons who do not pay for it cannot be prevented from benefiting from it, so there will be free riders.
4. The benefits of crime prevention are the absence of injuries, deaths, lost productivity, and damages from crimes that do not occur, so they are really cost

savings. Cost expenditures include paying for police protection, the judicial system, and the prison system. Not all benefits or costs are easily quantifiable, however. How do you measure and put a dollar value on the trauma of a rape victim or the loss of individual freedom from random drug searches? Even if we can't quantify some costs and benefits, we should nevertheless be aware of them. We may always choose to base our decisions on matters unrelated to costs and benefits, such as personal preferences or ethics.

5. (Appendix 2-1) If demand is inelastic, legalization will result in smaller increases in usage than if it is more elastic. An excise tax imposed on a legalized drug with an inelastic demand will result in a smaller decrease in usage than if demand is more elastic.
6. (Appendix 2-1) Taxes decrease supply and therefore usage. Drugs with inelastic demand are similar to the cases of cigarettes and alcohol; we probably tax them because inelastic demand ensures high tax revenue, not because they are “sinful”.
7. Of course.
8. Student activity.
9. Student activity.
10. Student activity.
11. Student activity.
12. Student activity. Perhaps the student can help children they know with an incarcerated parent.

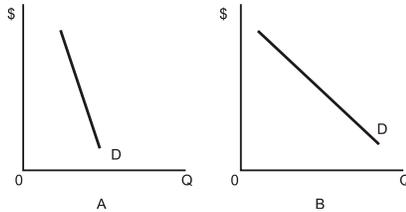
ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following questions may be useful in preparing lectures.

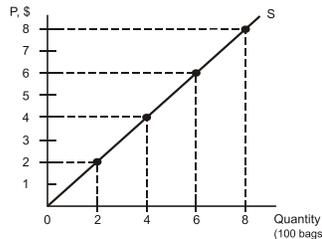
1. Which of the following are public goods or services: fire protection, libraries, roads, education, social security, and health care? Some people believe that these should be privatized wherever possible. Why is this and does this position hold validity? Would these people be on the economic left or right?
2. Does the government have to actually produce public goods, or is something still a public good as long as the government purchases (pays for) it?
3. Show the effect of legalizing drugs on a demand and supply graph. What would happen to usage and price? (I prefer to shift only one curve per graph in an introductory issues course, so

I would shift the curves in separate graphs. You can still demonstrate that the effect on usage is clear, but that the effect on price is indeterminate.)

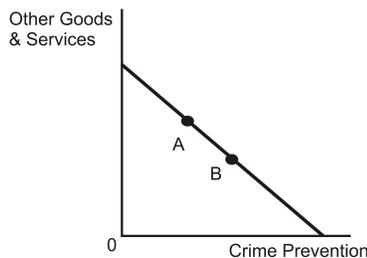
4. Below are two hypothetical demand curves for cocaine.



- Which demand curve would more likely reflect the demand of people who are addicted to the drug, and which would reflect the demand of casual users?
 - Add a supply curve to the graphs. In which case would the legalization of cocaine (represented by an increase in supply and ignoring the effect on demand), cause the largest increase in its use?
 - What are the implications of your conclusions for society?
5. (Appendix 2-1) Show the effect of the government taxing legalized marijuana by \$1 per bag on the supply curve below. Explain that the tax will raise the supply curve by \$1 at each labeled point. Then add a demand curve, and discuss the effect of the tax on the equilibrium price, quantity, and amount of tax revenue. Why doesn't the price rise by the full amount of the tax?



6. On the production possibilities curve below, show that our increased resources allocated to crime prevention implies a movement from a point such as A to one such as B. Discuss the forces in society that would cause us to make such a choice. Once again, discuss the opportunity cost. (Because state governments contribute a great deal towards financing crime prevention, the opportunity costs might realistically involve education, health care, and poverty programs.)



SUGGESTED TEST QUESTIONS

Multiple-Choice Questions

1. Which of the following is an example of a public good?
 - a. car insurance
 - b. a private hospital
 - c. national defense**
 - d. mobile phones

2. A neighborhood group initiates a “neighborhood watch” program. Ella doesn’t take part in the program, but she enjoys the greater security the program provides. The economic term for Ella is a:
 - a. smart consumer.
 - b. free rider.**
 - c. busy person.
 - d. economic citizen.

3. Some characteristics of a public good are that it is:
 - a. indivisible.
 - b. nonrivalrous.
 - c. nonexcludable.
 - d. all of the above**

4. A so-called victimless crime is defined as one that is:
 - a. not particularly violent.
 - b. only against property.
 - c. the result of consensual dealings between responsible adult persons.**
 - d. the result of coercion of a weaker person by a stronger one.

5. Which of the following is considered by some to be a victimless crime?
 - a. pornography**
 - b. arson
 - c. rape
 - d. murder

6. “The use of a good by one person does not prevent use by others” describes which of the following?
 - a. indivisible
 - b. nonrivalrous
 - c. nonexcludable**
 - d. none of the above

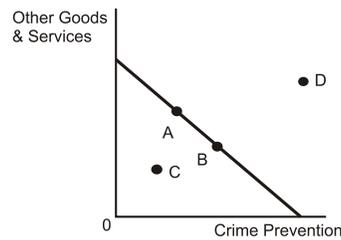
7. The best way of evaluating crime prevention programs from an economic perspective is to look at their:
- deterrent effects.
 - benefits and costs.**
 - number of prosecutions.
 - popularity with the public.
8. Which of the following countries has the highest incarceration rates?
- the United States**
 - Cuba
 - Russia
 - China
9. (Appendix 2-1) If the government were to tax legalized drugs, we assume this would:
- increase their supply and decrease price.
 - increase their supply and increase price.
 - decrease their supply and increase price.**
 - decrease their supply and decrease price.
10. The text assumes that if the government were to legalize drugs, their usage would most likely:
- not change.
 - decrease.
 - increase.**
 - not change, but the price would go down.
11. An economic argument *against* the legalization of drugs is:
- the personal health consequences of drug use.
 - drug related social problems.
 - at least some success in reducing drug usage.
 - all of the above**
12. An economic argument *for* the legalization of drugs is:
- the unqualified success in controlling the international drug supply.
 - drug usage would most likely decrease.
 - there would be a decrease in crime.**
 - illegal drugs really cause very few personal or social problems.
13. The usage of currently illegal drugs would increase by a smaller amount when legalized if the demand is:
- horizontal.
 - elastic.
 - inelastic.**
 - none of the above.

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14. Drug addicts are likely to have a highly _____ demand, while recreational users are likely to have a more _____ demand.

- a. elastic, inelastic
- b. inelastic, elastic**
- c. flat, steep
- d. flexible, rigid

15. Which of the following movements on the production possibilities graph might represent changes in U.S. choices between crime prevention and other goods and services over recent decades?



- a. from A to B**
- b. from B to A
- c. from C to D
- d. from D to C

16. Expenditures on which of the following have increased most in recent years?

- a. courts
- b. police activities
- c. prisons**
- d. after school programs for juveniles

17. Among the reasons that U.S. incarceration rates have increased in recent years are:

- a. mandatory sentences for drug offenders.
- b. “three strikes and you’re out” legislation in some states.
- c. “truth in sentencing” laws.
- d. all of the above.**

18. Most of our expenditures for the War on Drugs are spent on:

- a. programs to educate young people about the dangers of drug use.
- b. programs to decrease the supply of drugs.**
- c. programs to decrease the demand for drugs.
- d. “safe-needle” programs.

19. According to the FBI, most hate crimes occur in the category of:

- a. race**
- b. sexual orientation
- c. religion
- d. disability (usually mental illness)

20. A survey cited in the text indicates that the percent of respondents age 12 or older who acknowledged illicit drug use within the last month was about:
- a. 95%.
 - b. 63%.
 - c. 41%.
 - d. 22%.

True-and-False Questions

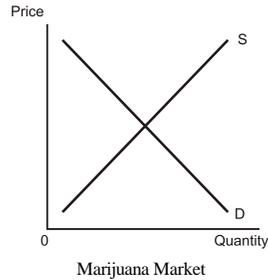
- F 1. The War on Drugs is universally thought to be a success.
- T 2. Violent crime rates have been decreasing in recent decades.
- T 3. Expenditures on the criminal justice system have increased in the last several decades.
- T 4. The largest increase in spending on the criminal justice system is in the area of corrections (prisons).
- F 5. The largest increase in spending on the criminal justice system is in the area of police protection.
- F 6. Theft is usually considered a victimless crime.
- F 7. Most of the individuals in jail on drug charges are violent members of organized crime syndicates.
- T 8. Economists argue that crime prevention activities should be evaluated by cost-benefit analysis.
- T 9. Expenditures on the criminal justice system have been an increasingly large percentage of state budgets over time.
- F 10. Expenditures on the criminal justice system have no effect on expenditures on education.
- T 11. “Truth in Sentencing” laws result in prisoners serving longer prison sentences before being eligible for parole.
- F 12. The U.S. incarceration rate is not high by international standards.
- T 13. One reason the U.S. incarceration rate has increased is that many people believe that prisons are a deterrent to crime.

Chapter 2 – Crime and Drugs

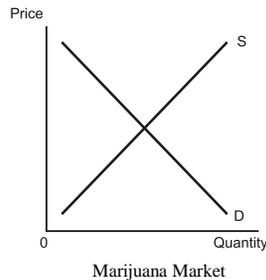
- F 14. State expenditures on education have increased far more rapidly than state expenditures on prisons in recent years.
- T 15. “Three strikes and you’re out” laws require life sentences after three convictions for certain serious crimes.
- T 16. The so-called victimless crimes are the result of consensual transactions between responsible adults.
- F 17. It is impossible to be simultaneously a social liberal and an economic conservative with regard to so-called victimless crimes.
- T 18. Economic conservatives are more likely to favor the legalization of drugs than are economic liberals.
- F 19. All benefits of crime prevention activities are easy to quantify.
- F 20. Economists agree that it is efficient to spend any amount on crime prevention activities so long as we decrease the crime rate by doing so.
- F 21. Russia has the highest incarceration rate in the world.
- F 22. More than one-half of surveyed people age 12 or older in the U.S. have used illicit drugs in the last month.
- F 23. Most hate crimes in the U.S. are committed on the basis of religion.
- F 24. It is clear that our higher incarceration rates over time have reduced violent crime.
- F 25. Studies mentioned in the text demonstrate that it is cheaper to utilize the death penalty than a life-sentence in prison.
- F 26. According to the text, white-collar crime is relatively minor and decreasing steadily in the United States.
- T 27. The text notes relatively high business bribery rates in African and Middle Eastern countries.
- F 28. The text points out that any concerns about discrimination in terms of drug laws as applied to white people and African Americans are clearly unwarranted.
- F 29. Studies have shown that it is very easy to prevent illegal drugs from entering the United States; the problem is that we haven’t tried very hard.
- T 30. (Appendix 2-1) A perfectly inelastic demand curve is drawn perfectly vertical.

Short-Answer Questions

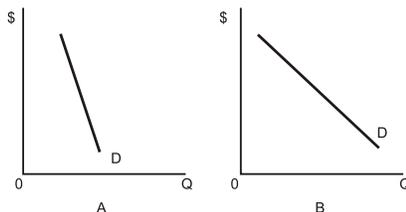
1. On the graph of the market for marijuana below, show the shift in demand assumed by the text from legalizing marijuana. (It would be a forward shift.) What would happen to usage? (increase), to price? (increase).



2. On the graph of the market for marijuana below, show the shift in supply assumed by the text from legalizing marijuana. (It would be a forward shift.) What would happen to usage? (increase), to price? (decrease). Since we get different results in the graphs in questions #1 and 2, what can we say about the overall change in usage (increase) and price (depends on the relative strength of each curve).



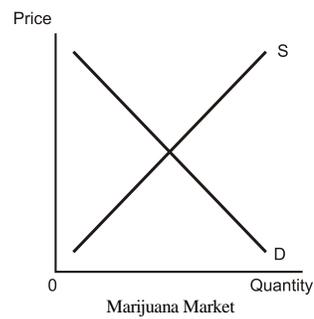
3. Which of the demand curves below is likely to be the demand curve of a casual drug user (B) and which is likely to be the demand curve of an addict? (A) In which case would legalization (represented by an increase in supply) result in the greatest increase in usage? (B)



4. (Appendix 2-1) Shift the curve that would occur in the following market for marijuana if the government imposes an excise tax on marijuana sales. (Supply would shift backwards.) What is

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the effect on the equilibrium price of marijuana? (increase), on the equilibrium quantity bought and sold? (decrease)



Critical Thinking Question

Critically evaluate the argument for decriminalizing marijuana. Will your analysis be different if you uncover evidence that marijuana is a “gateway drug”? What if it is shown to cause birth defects or miscarriages? What if it is shown to cause increased automobile accidents?