

Real World Graduation: Question 64: Economic Consequences

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Question 64

A local neighborhood gang threw a party, and in the course of having a good time, smashed 1000 beer bottles all over a residential street. The gang members all left the area before the cops showed up, and none were arrested or charged. The beer had been purchased at a local store, the gang members all paid a deposit to the store on the beer bottles that they subsequently broke. No matter what you think about parties, or beer, or about gangs in general, consider this action in the economic sense. In what economic sense did the gang members indirectly perform the most useful economic service?

- a) The store that was paid the deposit on the beer bottles gets to keep the deposit paid by the gang members.
- b) It is possible that some people will make money when they are paid to clean up the broken beer bottles.
- c) Broken beer bottles are a true sign of urban life, and will probably increase the partying type of tourism in that area.
- d) Some people will run over the beer bottles and get flat tires, which have to be replaced, which will cause those who manufacture, sell, and install tires will earn money.
- e) Some combination of a) and d).

Answer to Question 64

This is a trick question. The breaking of the beer bottles has no economic benefit; in fact it reduces the general benefit of past economic activity.

Answer a) is wrong because although it's true that the store gets to keep the deposit, the store owner gains nothing because he had to pay the deposit to the beer bottler. The gang members lost money because they could have returned the bottles and received back their deposit, which would have allowed them to buy something else (maybe more beer, which would have benefited the brewer). Also, the price of the deposit may be less than the replacement cost, because the bottler expects to get nearly all his bottles back. So the bottler incurs a loss by having to pay more than the deposit to replace the broken bottles.

Answer b) is wrong because although it's true that someone may be paid to clean up the mess, the money to pay the cleanup crew will come out of someone else's pocket (the neighbors), which they would otherwise have spent on something else.

Answers c) and d) are wrong for the same reasons. If people run over the bottles and get flat tires, the tire dealer will make money, but the people with the flat tires will have to do without something else they planned to buy instead of the now necessary tires. Responsible partying tourists do not want to go to a place that is dirty and dangerous, and the ones that like to make a mess will cause this area to experience more broken bottles and more losses.

The main point here is to consider the full effects of economic questions. It is not sufficient to consider who is next in line to make a few dollars, but remember to consider all the alternatives that did not happen because of the broken beer bottles. For example, suppose one of the neighbors was going to buy a new garden hose. That hose cannot be purchased with the money in hand because that money now has to be paid as part of the contribution toward cleaning up the broken bottles. The neighbor now has to work another hour to get the money for the hose he could have had if the bottles hadn't been broken. Likewise, the people who replaced their tires could have bought many other things. Those things now cannot be bought with the money then in hand, and those people now have to work more hours to get what they could have bought if the bottles hadn't been broken by the gang members. The gang members thus indirectly caused money to be wasted in some form (the beer bottler, or the neighbors who had to pay for the cleanup, or those who need new tires). It pre-empts productive activities that would have occurred had the bottles not been broken. When all the secondary and tertiary effects are considered, it is obvious this seemingly minor incident has no economic benefit. Don't be fooled by those who try to convince you that otherwise.