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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 technical at this level. See if you agree.

Since we are living in turbulent times, there is more focus in this edition on diversity issues, including Black Lives Matter and discrimination in drug enforcement, as well as #MeToo and hate crimes. Students will likely be interested in and have opinions on these topics.

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 enable the student to understand the economic argument about legalizing "victimless crimes."
 4. to initiate the student's exposure to elasticity of demand.
 5. to acquaint the student with government regulations and excise taxes on drugs.
 6. to assist the student in recognizing some of the diversity and global dimensions of crime.
 7. to illustrate the economically conservative and liberal viewpoints on crime and its prevention.
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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, healthcare, 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 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.
- Ask students why the size of our prison population has soared over recent times, even though violent crime rates have largely fallen since 1990.
- 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 websites 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*. And, my university charges students for harassment of squirrels!
- You can probably get a good discussion going if you ask students about the wave of white collar crime in the news in recent years.
- 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.
- The legalization of marijuana is of special significance to students, especially as more and more states make recreational use legal. Research is now being conducted to determine the degree to which marijuana impairs driving. What do the most recent studies show?
- 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. We need to be careful not to single out individual students and not to assume that they represent all students within their group.
- It is also difficult to address race and ethnicity in the Trump era. Students should know that Trump has been accused of harboring racism and bigotry, and they should feel free to quote his various comments and policies in relationship to race and religion, as well as to religion and immigration issues.
- 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. 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. What will be the effect of Pope Francis’ declaration that all capital punishment is immoral?
- 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 economically *conservative* position.
- You may find that the websites mentioned in the *Discussion and Action Questions* and in the *Notes* at the end of each 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 ANSWER QUESTIONS

1. A public good or service has unique characteristics (indivisible, non-rivalrous, 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 homeowner 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 non-rivalrous, 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. Reducing supply will be more effective in reducing drug usage if demand is elastic.
6. Taxes can be used to decrease supply in the case of an excise tax. Tax dollars could then be used for other programs, such as drug treatment facilities. Excise taxes on cigarettes reduce usage a small amount and increase price and tax revenue significantly because the demand for cigarettes, like the demand for some drugs, is inelastic. Excise taxes on cigarettes and alcohol are sometimes called “sin taxes”, but they are likely imposed because they raise significant tax revenue because their demand is inelastic.
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.

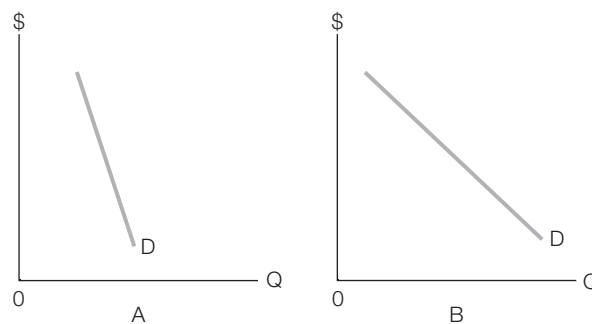
(Appendix 2-1)

1. (In absolute value): 10, 0.5, 2nd case, 1st case.
2. Approximately inelastic, approximately inelastic.
3. Cigarettes, cigarettes.
4. See margin definitions.

ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following additional questions may be helpful in preparing lectures.

1. Which of the following are public goods or services: fire protection, libraries, roads, education, social security, and healthcare? 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.

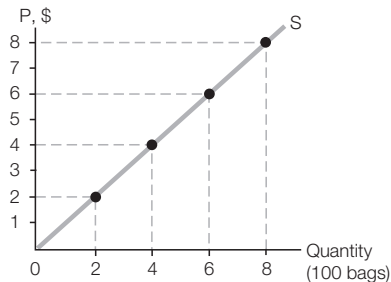


- a. Which demand curve would more likely reflect the demand of people who are addicted to the drug, and which would reflect the demand of casual users?
 - b. Add a supply curve to the graphs. In which case would the legalization of cocaine (represented by an increase in supply and ignoring the effect on demand), cause the largest increase in its use?
 - c. What are the implications of your conclusions for society?
5. 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 result in 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, healthcare, and poverty programs.)



(Appendix 2-1)

6. 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?

**SUGGESTED TEST QUESTIONS****Multiple-Choice Questions**

- Which of the following is an example of a public good?
 - car insurance
 - a private hospital
 - national defense**
 - mobile phones
- 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:
 - smart consumer.
 - free rider.**
 - busy person.
 - economic citizen.
- A characteristic of a public good is that it is:
 - indivisible.
 - non-rivalrous.
 - nonexcludable.
 - All of the above**
- A so-called victimless crime is defined as one that is:
 - not particularly violent.
 - only against property.
 - the result of consensual dealings between responsible adult persons.**
 - the result of coercion of a weaker person by a stronger one.
- Which of the following is considered *by some people* to be a victimless crime?
 - pornography**
 - arson
 - rape
 - murder

6. “The use of a good by one person does not prevent use by others” describes which of the following?
- indivisible
 - non-partisan
 - nonexcludable**
 - 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
 - Thailand
9. Drug addicts are likely to have a highly _____ demand, while recreational users are likely to have a more _____ demand.
- elastic, inelastic
 - inelastic, elastic**
 - flat, steep
 - flexible, rigid
10. 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?
- from A to B**
 - from B to A
 - from C to D
 - from D to C



11. A decrease in the supply of illegal drugs will cause a very small reduction in equilibrium quantity (usage) if demand is:
- horizontal.
 - elastic.
 - inelastic.**
 - None of the above

12. Approximately which share of people age 18–25 has used marijuana within the last year, according to the latest government survey?
 - a. 10%
 - b. one-third**
 - c. one-half
 - d. 95%
13. 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.
14. According to the text, most hate crimes occur in the category of:
 - a. race, ethnicity, and ancestry.**
 - b. sexual orientation.
 - c. religion.
 - d. disability (usually mental illness).

(Appendix 2-1)

15. A perfectly inelastic demand curve is:
 - a. perfectly vertical.**
 - b. perfectly horizontal.
 - c. downward sloping but not perfectly vertical or perfectly horizontal.
 - d. a concave curve to the origin.

True-and-False Questions

1. The War on Drugs is universally thought to be a success. **(F)**
2. Violent crime rates have been largely 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). **(T)**
5. Theft is usually considered a victimless crime. **(F)**
6. Most of the individuals in jail on drug charges are violent members of organized crime syndicates. **(F)**
7. Economists argue that crime prevention activities should be evaluated by cost-benefit analysis. **(T)**
8. When the data are adjusted for the age distribution of the population, results indicate that a relatively small amount of crime is reduced by “get tough” policies on crime. **(T)**
9. Expenditures on the criminal justice system have been an increasingly large percentage of state budgets over time. **(T)**
10. The limitations associated with provision of a public good or service is an example of a market failure. **(T)**
11. The U.S. incarceration rate is not high by international standards. **(F)**
12. State expenditures on education have increased far more rapidly than state expenditures on prisons in recent years. **(F)**
13. Donald Trump is the first president to declare a “war on drugs”. **(F)**
14. The so-called victimless crimes are the result of consensual transactions between responsible adults. **(T)**
15. It is impossible to be simultaneously a social liberal and an economic conservative with regard to so-called victimless crimes. **(F)**

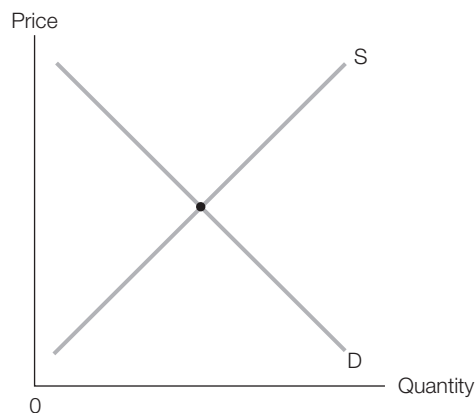
16. Economic conservatives are more likely to favor the legalization of drugs than are economic liberals. (T)
17. All benefits of crime prevention activities are easy to quantify. (F)
18. Economists agree that it is efficient to spend any amount on crime prevention activities so long as we decrease the crime rate by doing so. (F)
19. Russia has the highest incarceration rate in the world. (F)
20. Most hate crimes in the U.S. are committed on the basis of religion. (F)
21. Studies mentioned in the text demonstrate that it is cheaper to utilize the death penalty than a life sentence in prison. (F)
22. According to the text, white collar crime is relatively minor and decreasing steadily in the United States. (F)
23. The text notes relatively high business bribery rates in some countries in Africa, Asia, and Eastern Europe. (T)
24. 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. (F)

(Appendix 2-1)

25. A complementary good is one that is used as a substitute for (instead of) another good. (F)
26. An excise tax imposed in the case of a perfectly inelastic demand curve will cause a very large reduction in equilibrium quantity (usage). (F)
27. The income elasticity of demand refers to responsiveness of consumers to any change in *income*. (F)

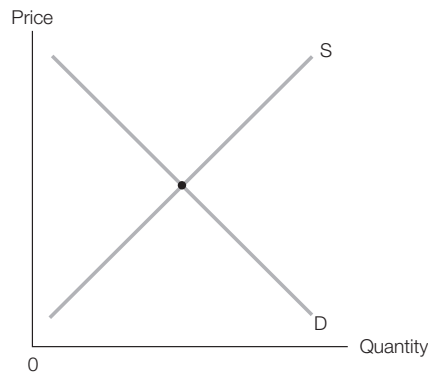
Short-Answer Questions

1. On the graph of the market for marijuana below, show the shift in demand that would occur if the government efforts to reduce demand are effective. (**A backward shift in the demand curve**). What would happen to usage? (**decrease**), to price? (**decrease**).



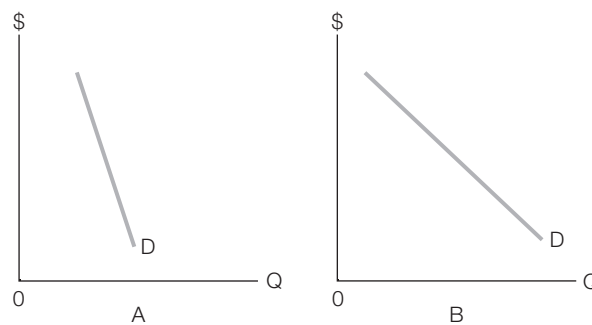
Marijuana Market

2. On the graph of the market for marijuana below, show the shift in supply that would occur if the government efforts to reduce supply are effective. (**A backward shift in the supply curve.**) What would happen to usage? (**decrease**), to price? (**increase**). Since we get different results in the graphs in questions #1 and 2, what can we say about the overall change in usage (**decrease**) and price (**depends on the relative strength of each curve**).



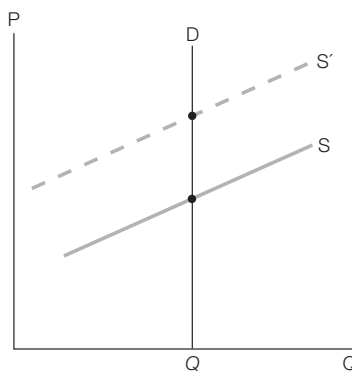
Marijuana Market

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**) (Hint: In the last question, first draw a supply curve and then shift it in the appropriate direction. Then compare the two graphs.)



(Appendix 2-1)

4. Shift the curve that would occur in the following market for opioids if demand were perfectly inelastic and the government imposes an excise tax on opioid sales. (**Supply would shift backwards.**) What is the effect on the equilibrium price of opioids? (**increase**), on the equilibrium quantity bought and sold? (**no change**) (Note that the supply curve looks like it shifted upwards, but remember that this is the same thing as a backward shift.)



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?