Allocation Systems

Markets and Money

Chapter 3 sections 1 & 2

Markets and Exchange

- **Allocation Systems** determine who gets goods and services and who does not.
- A market is a place or service that enables buyers and sellers to exchange goods and services.
- Barter is the exchange of goods and services directly, without the involvement of money.
- Monetary exchanges involve exchanging money for goods and services.

Allocation Systems

Who gets the goods and services?

- Government determined
- First come first served
- Lottery System—random
- The Market System—income earners buy goods and services

Which System Works?

- **Fairness**—none of the systems are fair, scarcity means someone gets left out.
- **Incentives** increase supplies and raise standards of living in a market system.

Production Possibilities Curve

Markets

- Markets enable the exchange of goods and services.

| Service
| NYSE
| eBay |
|---|---|---|
| Place
| Supermarket
| The Mall |
Barter—considerations

- Barter requires a **double coincidence of wants**—each party to the exchange must want what the other has to trade.
  - **Transactions costs**—the costs of making an exchange—are high in barter exchanges.
  - **Money** reduces the transactions costs because it does not require a double coincidence of wants.

- In barter, the price of one good in terms of the other is called the **relative price**. It is the rate of exchange between the two goods.

Bartering Boom

- The Internet has reduced the transaction costs of bartering.
- Web sites like BigVine help individuals and small businesses barter online.
- Sites offer a diverse range of products and services—from accounting to car repair, and restaurant meals to advertising space.