“World Oil Supremacy: A classroom experiment on supply/production and human behavior”

Objective: maximize your profits

**Instructions:**

1. **Each player invests $10 in oil production** (discuss what this means)
2. **Players then take a vote**
3. **If everyone chooses collude, all players receive their initial investment plus $10 profit ($20 total).**
4. **If everyone chooses collude, but one player defects, the person defecting receives their initial investment plus $40 profit ($50 total) and all other players receive just $12 (representing $2 profit).**
5. **If more than one person defects, everyone is simply returned their $10 with no profit.**

Sequence:

1. Have each player vote anonymously on a piece of paper with their initials. Don’t announce the “spoilers” by name at first.
2. Now allow discussion (cartel meeting), but each player still votes anonymously. Still don’t announce the spoilers.
3. Now have players pair-up (alliances), and each pair votes anonymously as a unit.
4. Now announce the spoilers by name and tally the accumulated point-total. Allow time for discussion and expression of outrage. Then try #1 again.
5. Vote publicly in a circle (“fairness”, guilt, moral pressure). Try varying the order and timing of a public vote.
6. Discuss: How can we solve the problem?
7. Try switching ballots: each player votes someone else’s ballot. (revenge, mob rule)
8. Elect or appoint a Dictator (Command economy, State-control): Each player invests $10 in State-run oil production with predictable $5 profit. The total distribution pool is then $15 per player (the State-run bank contributes the other $5). The Dictator may decide to keep all or some of the pool for himself/herself (for the “People” of course), or allocate it in various ways to the players. Bribes are accepted either openly or by secret envelope. Eventually an election is held for a new Dictator, or the players take turns being Dictator-Presidente-King.
9. Construct supply and demand curves (Market Economy). Use $-market-price/gallon on y-axis and %-of production capacity on x-axis. Announce the “cost of production” of gasoline at $3/gallon. Discuss what a ‘supply’ curve would look like (Q probably begins rising at a selling price of around $3.25 or $3.50, and rapidly goes to 100% full production while approaching $4.00 price). A hypothetical demand curve would intersect supply at, say, $3.50. Discuss how this ‘solves’ the supply problem and how BOTH producers and consumers are benefitted.

Lessons:

1. Human behavior: each person will seek to maximize their own happiness or best interests. Any system based on human ‘altruism’ or fairness/guilt will break down
2. Collusion: Cartels ultimately break down
3. Working the system: People will lie and cheat
4. This is ultimately a “supply” simulation. What stimulates people to invest in an enterprise and create goods & services? Collusion, “fairness”, and State-control ultimately fail. By contrast, accurate pricing information (reflecting actual demand) and free markets (absent corrupt government officials) will create the optimum investment/production scenario.