

Analyzing Economic Enigmas

As you analyze each economic enigma and apply the principles of economic thinking, record your responses below.

Description	Principles that <i>Help</i> Explain the Enigma	Principle that <i>Best</i> Explains the Enigma and Why
Enigma 1:		
Enigma 2:		
Enigma 3:		

Sample Economic Enigma Article

Americans Spend Billions on Bottled Water

Similar-Quality Tap Water Remains Virtually Free

Americans enjoy some of the cleanest, safest, cheapest tap water in the world. For about \$10, you can get about 5.5 years' worth of drinking water from your kitchen tap. The same \$10 would buy you only about 4 liters of bottled water. In fact, about 40% of bottled water that is sold in the United States is actually filtered tap water.

In addition, the Environmental Protection Agency's regulations for tap water are more stringent than are the Food and Drug Administration's regulations for bottled water. This means that in many cases, your tap water might actually be better for you than bottled water.

Yet the consumption of bottled water continues to rise every year. The per capita gallons of water consumed by the average American has more than doubled in the past 15 years.

In light of all this information, one has to wonder: *Why are people paying for bottled water when it is so much more expensive than tap water?*

Despite all the evidence to the contrary, people who choose to buy bottled water are making a rational decision about their own best interest. For a variety of reasons, these people perceive purchasing bottled water as being the best decision for them at that

moment. Whether consciously or not, they have applied the **cost-versus-benefits principle** and have determined that the benefits outweigh the cost. For example, many people complain that they do not like the taste of tap water. For them, drinking bottled water is a rational choice. It brings them a greater degree of satisfaction and that is therefore worth the cost.

The **incentives-matter principle** also helps us understand why people would pay for something they could get for free. The producers of bottled water have provided a healthier alternative to other packaged portable beverages, such as soda. When you want a drink that you can take with you, you have an incentive to pay for bottled water, even though you could have it for free if you found a drinking fountain, brought a reusable water bottle with you, or waited until you got home.

Perhaps most important, the fact that people purchase bottled water when they could get tap water virtually for free is best explained by the **markets-coordinate-trade principle**.

The reason that consumption of bottled water is growing at such a rapid pace is that producers are meeting consumers' demand for this product. People want to buy bottled water, so the market



supplies it. There would not be vending machines selling water or entire aisles at the grocery store dedicated to bottled water if there were not consumers willing to buy what is being sold.

When people choose to spend money on a product when they could get a similar product—or, in some cases, the same product—for free, they are not doing so blindly. Rather, they are making decisions based on principles of economic thinking. However, with a little planning, people could transport their own tap water—filtered if they prefer—and avoid having to pay for bottled water.