

Elasticity – Podcast Worksheet (Moonshine Stimulus)

1. What economic term was used to describe alcohol in the podcast?

- A: Elastic
- B: Inelastic**
- C: Luxury
- D: Inferior

2. Which historical figure in the podcast was suspected of purchasing moonshine during prohibition?

- A: Herbert Hoover
- B: Pablo Picasso
- C: Dwight Eisenhower
- D: Franklin D. Roosevelt**

3. Prior to prohibition, alcohol taxes accounted for as much as 75% of federal government revenue. According to the podcast, increases in which tax helped offset the revenue lost during prohibition (Hint: It relates to the 16th amendment to the U.S. Constitution)?

- A: Tariffs on Imports
- B: Sales Tax
- C: Income Tax**
- D: Capital Gains Tax

4. “How responsive were people to laws that prohibited alcohol consumption and increased its cost during prohibition?”

A: People were not very responsive (they had inelastic demand).

5. “Did consumers still continue to purchase and consume alcohol even as restrictions and costs were increasing?”

A: Alcohol continued to be produced, purchased, and consumed despite the new laws. There is even anecdotal evidence that presidents were still consuming alcohol, as referenced in the podcast. Individuals were however incentivized to substitute away from the production and consumption of beverages with low alcohol content like beer, and towards the production and consumption of higher proof drinks like moonshine, which was easier to conceal from authorities. This provides an example of how government policy can alter behavior by changing the relative costs of particular decisions, and have unintended consequences.