

Mario,

I like what you are doing in this paper.

I attach a problem for 302 stimulated by your paper. You may want to test a few of the implications.

Regards,

Gary Becker

Problem, Economics 302, due Feb. 1, 2008

In most countries it is illegal to buy blood. Assume that potential blood donors are separated into 3 groups, A give only for the monetary compensation, B give partly because they are altruistic toward blood transfusion recipients-they do not care about prestige from giving- and C give partly because they get prestige from others because they are blood donors, but they are not altruistic. Start out by assuming that blood cannot be bought or sold.

- a. Suppose there is an increase in supply of blood from group C. What happens to real income of group B and the amount of blood supplied by B? What happens to total amount of blood supplied?
- b. Assume the only cost of giving blood is that it takes t minutes. Health is unaffected by giving once or twice a year, but one cannot give blood more than twice a year. How would an increase in t affect the amounts of blood given by B and C? Could a higher t raise the blood given by B?
- c. Given t , would members of B and C give once or twice a year?
- d. Now assume a market in blood giving, with a price of p^* for each pint of blood that equates supply and demand for blood. What determine whether a member of group A now gives blood? Would those members of A who sell their blood give once or twice a year?
- e. Would members of B give more blood than when blood could not be sold? What about members of C? How do you think the total supply of blood would compare to the case when blood cannot be sold?
- f. Could charitable organizations that try to obtain blood without paying for it, like the Red Cross, compete against firms that pay for the blood they get? Suppose the Red Cross gives blood donors a certificate that indicates they gave blood to the Red Cross. Would the Red Cross get donations from group A? From B? From C?
- g. Suppose now payment for blood only takes the form of a payment per year, M , if a person gives blood that is the same if he gives once or twice in a year-such as the free medical checkups in a year that Italy gives only to blood donors in that year. Everyone who gives receives M . Would members of group A give twice in a year? What about members of B and C? Could members of B or C give more frequently during a year than when there is the same price per pint sold?