In class we just performed a tragedy of the commons experiment. In the experiment you were split into four groups, or oil companies, each of which who owned a plot of land over the top of the same underground oil field with a fixed amount of oil in it. Each round, each company had the opportunity to choose to run their oil rig at low speed or high speed. A low speed rig produces 1 oil barrel per round. A high speed rig produces 2 barrels per round, but also wastes 1 barrel of oil in the process. These rounds continued until the well was out of oil (for the record, there were a total of 24 barrels of oil in the well). On a separate sheet of paper, or preferably in a Word document, answer the following questions as a group.

1. In the experiment, oil was a common pool resources. What does economic theory predict would happen? Write a couple of sentences here talking about specifically what theory predicts the companies would choose to do in each round and the consequences for society as a whole.

2. What would the socially optimal course of action be for each of the oil companies in the experiment? Explain.

3. Compare what actually happen in the experiment to what theory predicted as well as the socially optimal actions. Were you guys close to the social optimum? Close to the theoretical prediction?

4. In this experimental setting, come up with at least one method for changing incentives in order to obtain the socially optimal outcome and explain why you think it would work. (Note: If you have several ideas, tell me about all of them!)