

Name: _____

Lesson 24

Period: _____

The Corny Fuel Mystery

Directions. Read the *Handy Dandy Guide* and the mystery. Read the clues. Be careful. While all the clues are correct, only some are *useful* in solving the mystery. Decide which clues are most relevant to solving the mystery. Use the clues and one or more of the ideas from the *Handy Dandy Guide* to figure out a solution to the mystery. Write your solution.

Handy Dandy Guide

1. People *choose*.
2. People's choices involve *costs*.
3. People respond to *incentives* in predictable ways.
4. People create *economic systems* that influence individual choices and incentives.
5. People gain when they *trade* voluntarily.
6. People's choices have consequences that lie in the *future*.

The Mystery

In the midst of the energy crisis of the late 1970s, the U.S. federal government hit on a new idea. Researchers had found ways to mix ethanol—a fuel distilled from corn—with gasoline. This discovery raised hopes that this new fuel mixture would reduce the amount of gasoline Americans used, thus decreasing United States demand for foreign oil while improving air quality. To encourage the use of ethanol, the federal government provided a subsidy to fuel producers by reducing the gasoline tax on fuel made with the ethanol mixture.

A study done in 1997 by the General Accounting Office (GOA) of the federal government showed that the ethanol subsidy was expensive (it had cost taxpayers \$7 billion since 1979) and did little to improve the environment or reduce imports of foreign oil. However, efforts to abandon the ethanol subsidy have failed to gain approval in Congress.

Why would the United States government provide subsidies for the production of an alternative fuel that does not help the environment, does not reduce consumption of foreign oil, and costs taxpayers billions of dollars?

The Clues

1. Environmentalists no longer support ethanol.
2. Many farmers in the Midwest grow corn. Politicians from the Midwest seek votes among the farm population.
3. Farmers in Iowa produce a great deal of corn. Iowa is an important state in national politics because of its early precinct caucus system for selecting delegates to national nominating conventions.
4. Ethanol production adds an estimated \$60 million to the economy of South Dakota each year.
5. By 1996, 40 ethanol plants were operating in 20 states, generating 40,000 jobs.
6. The American Corn Growers Alliance supports continued subsidies of ethanol.
7. The real price of oil has been declining in the 1990s.
8. In 1998, Ford Motor Company reported that it had begun experimenting with vehicles designed to use ethanol fuel.
9. Ethanol is sold in more than 40 states.

Record your solution and explain it briefly here:
