

INCENTIVE: http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=incentive

A cost or benefit that motivates a resource allocation decision or other action by consumers, businesses, or other participants in the economy. Incentives can be monetary or nonmonetary. A few of the more important incentives affecting economic decisions are prices, taxes, and government regulations.

Incentives can be monetary, such as [prices](#) and [taxes](#), or nonmonetary, such as [government](#) laws and social customs. Higher prices provide incentives for consumers to buy less and producers to sell more. Taxes create incentives to reduce taxed activities. Government laws, rules, and [regulations](#) create incentives through the threat of punishment. Social customs and religious doctrines provide similar incentives of a more psychological or spiritual nature.

Prices

Consider first the all important [resource allocation](#) incentives generated by prices. Suppose that Chip Merthington, first-chair tuba player for the Ambling Institute of Technology Fightin' Wanderers marching band, has been offered \$1,000 per performance to join the Live Headless Squirrels pop/rock group in Los Angeles, California. This price creates the incentive for Chip to leave school, quit the Fightin' Wanderers marching band, move to California, and sell his tuba-playing services to the Live Headless Squirrels.

Taxes

Now consider how taxes can impose resource allocation incentives. Once Chip arrives in California, he discovers that out-of-state musicians must pay a \$900 per performance out-of-state musicians tax, thus reducing his pay to a mere \$100. In light of this tax incentive, Chip rethinks his decision to join the Live Headless Squirrels pop/rock group, opting instead to set up shop as a psychic who channels contact with deceased relatives through his tuba.

Regulations

Government laws, rules, and regulations also create allocation incentives. Much to Chip's surprise, California has a law against channeling the messages of dead people through tubas (trumpets are okay, just not tubas). Wanting to avoid ten years in prison, Chip decides that spiritual tuba channeling is not the best use of his [labor](#) resources. He joins a local monastery where he spends his hours making fruitcakes for orphans.

Religion

Religious doctrine and social customs also provide allocation incentives. Chip finds spiritual fulfillment making fruitcakes for orphans, until he uncovers details of the religious doctrine practiced by this particular group of monks. They believe that life on Earth was colonized millions of years ago by space aliens from a planet in the Ursa Minor constellation. Chip cannot accept this nonsense. He firmly believes that life on Earth was colonized millions of years ago by space aliens from a planet in the Ursa Major constellation. As such, Chip leaves California, returns to Shady Valley and rejoins the Ambling Institute of Technology Fightin' Wanderers marching band, where he can consort with others of similar religious beliefs.