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ACTIVITY 1

THE POWER OF ECONOMICS: COSTS, BENEFITS, AND LOGIC

Lesson Summary

The essence of economics is logic.

Objectives

- Students will recognize that we all think, reason, and decide economically—that is to say, logically—even if we don't realize it.

Background

When we have a decision to make or an objective to fulfill, we (1) consider the available options, (2) calculate the expected costs (–) and benefits (+) of each option, and (3) choose the option that we hope will yield the greatest value. This model of logical decision making is the essence of economics, since it can help us explain and predict nearly all manner of human behavior. Throughout our study of economics, we will assume that people, acting as consumers, business people, and even as representatives of the government, act logically.

Directions

1. Have students read *The Bottom Line*. Briefly explore meaning and significance in their own lives.
2. Have students read and complete the *Personal Economics* example in class.
3. Compare tables. Is there one best way to pick up Grandmother at the airport? (No—each individual has his/her own options, expected costs and benefits, net values, and corresponding “best” course of action.)
4. Assign students the Internet Economics application for homework. This assignment asks students to find interesting, **reputable**

web sites and explain logically why someone would go to the trouble of developing and maintaining those sites, even when anyone can access them for free.

Time Needed

1–2 class periods

Assessment and Evaluation

Collect Internet Economics assignments from all students. To what extent did they complete the assignment (using correct addresses) and show that they understood the rule and power of logical decision making as it applies to web masters?

Further Applications

The scope of logical decision making is virtually limitless. Ask students to come up with more examples of decisions, large or small, that they make logically, even if they don't realize it. In fact, can students think of any decisions they make where they do not internally calculate the costs and benefits of available options to make the logical choice? Are there any exceptions to the rule of logical decision making? Was Hitler logical? Is love logical? Are drug addicts logical? (To the last three questions, I would argue “yes,” but it's fun to debate.) How does money fit into the concept of logical decision making? (Costs and benefits are often, though not always or even necessarily, measured in dollars.)



Web Sites

www.yale.edu

◆ THE POWER OF ECONOMICS: COSTS, BENEFITS, AND LOGIC ◆



The Bottom Line

People base decisions on what they expect their costs and benefits to be. We all calculate this in our own minds, with **costs** counting **negatively** and **benefits** counting **positively**. First we weigh the costs and benefits. Then we choose the option that gives us the **greatest net value** (benefits minus costs). People do what they think makes the most sense in a given situation. They act logically. (Of course, this does not mean that everyone acts the same, or that logically made decisions are always right—just that they’re logical!)



Personal Economics

Here’s an example of the costs and benefits of an action. I need to pick up my grandmother at the airport. The airport is 10 miles away, and my grandmother is 102 years old. I have several options: walk, drive, send her cab fare, charter a limo, or leave her stranded. To make a decision, I think of the costs and benefits of each option. Then I weigh them against each other (benefits minus costs) to come up with a net value.

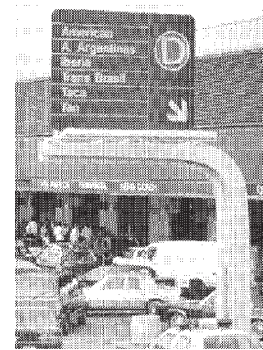
In this case, the first option—walking—is a poor option for me, not to mention for my grandmother. I’ll assign this option a low net value. The second option, driving, rates a much higher net value on my internal scoreboard: It’s fast and

relatively easy. In the table below, I have outlined the costs, benefits, and net value of these two options.

Which option should I choose? If you said, “The option that makes the most sense,” you’re right. We all do that, even if we don’t realize it. We subtract the costs from the benefits and calculate a net value for each option. Then we choose the option that gives the greatest net value.

In this case, even though I didn’t fill in the costs and benefits of the other three options (send her cab fare, charter a limo, or leave her stranded), I decide that the second option, driving, yields the highest net value of all the possible options. This is the same as saying, “It’s the option that makes the most sense.”

How would you fill out the Pick up Grandmother table? On the next page there is another version of the table, with all the options, but no costs, benefits, or net values. Fill it in according to your own scoreboard. What would be the costs and benefits of each option *as they apply to you*? Which option would you choose to pick up *your* grandmother at the airport?



OBJECTIVE: PICK UP GRANDMOTHER AT THE AIRPORT			
Options	Costs (–)	Benefits (+)	Net Value
Walk	Takes time, energy Lots of luggage to carry Grandmother is 102	Great exercise	Low
Drive	Gas and parking costs Accident risk Potential for heavy traffic	Comfortable ride Relatively fast	High

(continued)

◆ **THE POWER OF ECONOMICS: COSTS, BENEFITS, AND LOGIC** ◆ *(continued)*

OBJECTIVE: PICK UP GRANDMOTHER AT THE AIRPORT			
Options	Costs (-)	Benefits (+)	Net Value
Walk			
Drive			
Send cab fare			
Charter a limo			
Leave her stranded			
Other: _____ _____			

 ***Beyond the Bottom Line***

Think of two decisions you need to make today. On a separate piece of paper, make up a form like the one below. List the decision you need to make at the top. List all the possible choices you could make under Options. Then list

the costs and benefits of each choice, and calculate the net value of each one. Which is the best option for you? Finally, write one or two sentences to justify your choice.

DECISION:			
Options	Costs (-)	Benefits (+)	Net Value
Option/Decision chosen:			
Justification:			

(continued)

◆ **THE POWER OF ECONOMICS: COSTS, BENEFITS, AND LOGIC** ◆ *(continued)*



Internet Economics

It's tough to find a place on the Web where logical decision making is not taking place. Many sites on the Internet are free. They are designed to spread news about a person or a group. One example is **www.yale.edu**. This site is designed to post news about a school, Yale University. For every site on the Web, someone has decided that the benefits of creating the site (increased sales, greater publicity) are greater than the costs

(paying a web master to design and build the site, maintaining the site).

Find at least three interesting, reputable sites on the Web. Why do you think the web masters of these sites spent the time and money to develop them? Name three web sites, with proper addresses. Offer specific reasons why each site may have been developed.

Site #1: _____

Reasons for development: _____

Site #2: _____

Reasons for development: _____

Site #3: _____

Reasons for development: _____

ACTIVITY 2

SCARCITY IN THE REAL WORLD, AND THE RESULTING TRADEOFFS

Lesson Summary

Scarcity is a fact of life for everyone, everywhere. We all have to make tough decisions—and tradeoffs—about what we consume, what we make, and what we do.

Objectives

- Students will demonstrate an understanding of the role scarcity plays as individuals, businesses, and government representatives make difficult tradeoffs, giving up one thing to get or do another. They will also see the different priorities of Democrats and Republicans in terms of government programs, and the tradeoffs political parties are willing to make.

Directions

1. Have students read *The Bottom Line* and complete *Personal Economics*. Discuss meaning and significance of scarcity and tradeoffs; compare individual lists of “wants.”
2. Assign *Beyond the Bottom Line* and *Internet Economics* for homework. For *Beyond the Bottom Line*, most students should be familiar with the kinds of programs that the government pays for, but if they’re stuck, they should start *Internet Economics* right away. All of the web sites listed, but particularly the Republican and Democratic party web sites at www.rnc.org and www.democrats.org, offer a wealth of information about government programs and whether they should be funded.

Time Needed

2 class periods

Assessment and Evaluation

Collect *Beyond the Bottom Line* and *Internet Economics* assignments from each student. In *Beyond the Bottom Line*, how specific were students in listing government programs, and how persuasive were their rationales for funding—or eliminating—certain programs? In *Internet Economics*, how accurately did students identify programs that Republicans/Democrats tend to support?

Further Applications

The following questions are good springboards for additional discussion. Is Bill Gates, a man who has \$50 billion, really plagued by scarcity? (Yes—especially when you consider that “time” is probably a very scarce resource for him.) Are all goods “scarce”? (I think so; one possible exception is “air,” a commodity available in unlimited quantities everywhere at absolutely no cost, although *clean* “air” does raise questions of cost.) As a follow-up to *Beyond the Bottom Line* and *Internet Economics*, you may want students to try their own hand at balancing the federal budget and seeing firsthand the difficult tradeoffs required—which programs to keep and which programs to axe—using the University of California’s budget simulation game at www.garnet.berkeley.edu.



Web Sites

www.rnc.org
www.democrats.org
www.concordcoalition.org

◆ SCARCITY IN THE REAL WORLD, AND THE RESULTING TRADEOFFS ◆

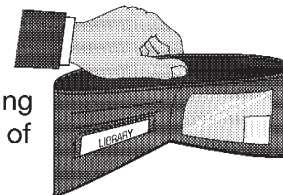


The Bottom Line

In the imperfect world we live in, none of us, even the wealthy, have enough of the things we want. We seem to have **unlimited wants** (prosperity, clean air) and **scarce resources** (productive land, employable workers). Some people and countries, do, of course, have more than others. However, all of us feel we don't have enough of what we want. We are reluctant to make

tradeoffs. But getting one thing often means not getting something else. The value of the option you gave up is called **opportunity cost**.

Scarcity and tradeoffs are indeed an unfortunate fact of life.



Personal Economics

Make a list of your wants—things you'd like more of, or just some of. Many people would say "money," but be specific. What things would you buy with more money? Use the line below and the back of this sheet, if needed.

Are there also things you'd like that can't be bought with money? What about time, or more knowledge? Anything else? List them below and on the back of this sheet, if needed.



Beyond the Bottom Line

Did you know that the U.S. government spends well over \$1 trillion every year on goods and services and still doesn't have enough to satisfy everyone? Yes, even our government has to deal with scarcity and make tradeoffs. That's why Congress and the president have such a battle every year over the budget and who gets what. Consider this question: What are some of the competing demands for government money?

If you're stuck, look at the newspaper or news programs or the Internet. Invariably, you can find stories about people arguing about how government money—*your* money paid in taxes—should be spent. What is *your* opinion on some of these programs? Add more programs to the list below. Then say whether or not you think each one should be funded.

Government Program	My Opinion
1. Money to make health care more affordable for all elderly	
2. Money to increase our military security and international presence	
3.	
4.	
5.	

(continued)

◆ **SCARCITY IN THE REAL WORLD, AND THE RESULTING TRADEOFFS** ◆ *(continued)*

Circle the programs you feel most deserve government money. Now, unless you want higher taxes or a budget deficit (where the government spends more money than it has) you'll need to make some tradeoffs. Which government

programs should be cut to pay for the ones you support? For every program you support, name an existing one that must be axed. Be specific. Make sure you explain *why* you want to make this tradeoff.



Internet Economics

The federal budget is a great place to see unlimited wants fighting for scarce resources. As the budget takes shape, the two political parties battle daily over how our tax money should be spent. The Republican party has its own web page detailing and promoting its budget positions (www.rnc.org). So do the Democrats (www.democrats.org). There's also a nonpartisan group called The Concord Coalition (www.concordcoalition.org). This group claims to analyze federal budget issues with more neutrality and a longer-term perspective. Check out these web sites. Then answer the following questions:

1. List five specific federal programs and the official Democratic and Republican positions on each.

Program	Democratic Position	Republican Position
1.		
2.		
3.		
4.		
5.		

2. What kind of programs do the Democrats tend to support? What kind of programs do the Republicans tend to support?

3. What tradeoffs would the Democrats be willing to make in order to pay for the kinds of programs they support? What tradeoffs would the Republicans be willing to make to pay for the kinds of programs they support?

ACTIVITY 3

INS AND OUTS

Lesson Summary

Producers assemble land, labor, and capital (**inputs**) to produce goods or services (**outputs**) that are sold to consumers. This activity builds on the concepts of scarce resources and unlimited wants introduced in Activity 2.

Objectives

- Students will demonstrate an understanding of the outlines of our market structure where producers use inputs to make outputs and sell them to consumers.

Directions

1. Have students read and complete The Bottom Line and Personal Economics. Make sure students understand the definition of *capital* (often misused) and the difference between a good and a service.
2. Commence the in-class group project described in Beyond the Bottom Line, following the directions carefully. There will be some running around initially, as students are first assigned designations of land, labor, or capital and then herded into one of four groups. Once the groups are set, the members of each group should choose a good or service and then assign roles/specific assignments so that this good or service can realistically be produced. Allow about 15 minutes for groups to complete this task, which includes putting their specific plans to paper. Then give each group time (two–three minutes each) to make a short presentation to the whole class. Whichever group does the best job—in your judgment or according to a class vote—of setting up a realistic production plan using each of the inputs and explaining how each input works earns a prize, extra credit, etc. (whatever you decide).

3. Assign Internet Economics as a homework project. Tell students to be prepared to share results of their homework during the next class.

Time Needed

1–2 class periods

Assessment and Evaluation

Since the Beyond the Bottom Line is designed for groups and is conducted in class, it affords you a good opportunity to assess how well students interact and cooperate with each other. In particular, groups and individuals can be graded on the quality of their oral presentation, their specific contributions to the project, and their general enthusiasm. You can collect and check the Internet economics assignment, or simply ask students to share their results.

Further Applications

How can capital be both an input *and* an output? (A machine that makes bottles is a capital good—an input—helping to make glass bottles in the future. It's also a piece of equipment that was first produced and sold to a consumer, in this case, the bottling plant. Thus, it was an output *before* it became an input.)



Web Sites

www.coldwellbankercommercial.com
www.studentsource.com
www.ipodata.com