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# The President's Dilemma

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Implementing Fiscal and Monetary Policy to Resolve an  
Economic Crisis



### **About the Buck Institute for Education**

The Buck Institute for Education (BIE) is dedicated to improving 21st-century teaching and learning by creating and disseminating products, practices, and knowledge for effective Project Based Learning. Founded in 1987, BIE is a not-for-profit 501(c)3 organization that receives operational funding from the Leonard and Beryl Buck Trust, and funding from other education organizations, foundations, schools and school districts, state educational agencies, and national governments for product development, professional development, and research.

### **Project Based Economics**

#### **Authors**

Nan Maxwell, PhD

John Larmer

John Mergendoller, PhD

Yolanda Bellisimo

#### **BIE Production Editor**

Suzie Boss

#### **Interact Production Editor**

Justin Coffey

**Product Code: INT265**

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# Table of Contents

<b>Foreword</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>3</b>
<b>Chapter One</b> .....	<b>3</b>
Teaching Economics With Project Based Learning .....	8
<b>Chapter Two</b> .....	<b>8</b>
Teaching Strategies for <i>Project Based Economics</i> .....	10
<b>Chapter Three:</b>	
<b>Sample lesson—Make More Money?</b> .....	<b>16</b>
Letter From AJ .....	22
Guidelines for Conducting the Interview and Playing the Role of “AJ” .....	23
Median Earnings for Full-time, Year-Round Workers .....	24
<b>Chapter Four:</b>	
<b><i>The President’s Dilemma</i></b> .....	<b>25</b>
Purpose and Overview .....	25
<b>Daily Directions</b> .....	<b>28</b>
Teaching <i>The President’s Dilemma</i> .....	28
Step-by-Step Teaching Guide .....	30
<b>Teacher Materials</b> .....	<b>47</b>
<b>Economics Review</b> .....	<b>47</b>
Monetary Policy .....	47
Fiscal Policy .....	48

# Table of Contents

<b>Concept Definitions .....</b>	<b>51</b>
<b>Assessment Tools .....</b>	<b>55</b>
Questions From Panel Members.....	55
Rubrics .....	58
Test for <i>The President's Dilemma</i> Answer Key .....	62
<b>Student Materials.....</b>	<b>67</b>
Memo From the President .....	67
National Statistics For Selected Years .....	68
Letters From Constituent Groups.....	69
Memo From the Chief of Staff .....	72
Test for <i>The President's Dilemma</i> .....	73
<b>Teacher Feedback Form.....</b>	<b>78</b>
<b>Release Form for Photographic Images .....</b>	<b>79</b>

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## Foreword

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Students learn more when they care about what they are learning. Students understand concepts better if they see how these concepts apply to the world outside of school. Students retain information longer if they are actively engaged in discussion and demonstration of what they are learning.

These are hardly new ideas, but too much of what happens in American classrooms does not meet this ideal. *Project Based Economics (PBE)* is built upon these principles. It addresses the concepts and content defined by the *Voluntary National Content Standards in Economics*, but does it in such a way that this material becomes meaningful and involving to students. *PBE* reverses the traditional method of “teach the concepts first, then give students the opportunity to apply them.” Instead, *PBE* places students in an interesting scenario with an open-ended problem to solve and asks them to arrive at a justifiable solution using economic concepts. The project thus “pulls” students through the content. The teacher’s role is to clarify, facilitate, and guide, rather than “push” unmotivated students toward the learning objectives.

Additionally, the *PBE* methodology helps teachers build valuable interdisciplinary “21st-century skills” including collaboration, critical thinking/problem solving, and making a presentation. We have found that *PBE* works well for diverse students in a variety of school settings. Research comparing students’ economic knowledge gained from *PBE* versus that gained by students who received traditional instruction has demonstrated that the *PBE* students learn more, and that this difference is statistically significant.

These units were developed collaboratively by the Buck Institute for Education, and the HIRE Center, California State University–East Bay. They have been pilot-tested and critiqued by a group of energetic and insightful teachers throughout California. Although too many teachers have been involved in the development of these units to thank each teacher by name, we are extremely grateful for their time, insight, and contributions to making these units successful. In addition, there have been a number of university professors, staff developers, and school district staff who have contributed to unit development. We have benefited from their observations and suggestions, and offer a collective “Thank you!”

Please visit the Interact website ([www.teachinteract.com](http://www.teachinteract.com)) to find out about professional development offerings and conference presentations.

Nan L. Maxwell, Ph.D.

*Executive Director, HIRE Center, California State University–East Bay*

John Mergendoller, Ph.D.

*Executive Director, Buck Institute for Education*

John Larmer, M.A.

*Director of Product Development, Buck Institute for Education*



# Introduction

## Chapter One

### What is Project Based Learning?

Project Based Learning (PBL) is an instructional method in which students:

- Engage in a rigorous, extended process of inquiry focused on complex, authentic questions and problems
- Work as independently from the teacher as possible, and have some degree of “voice and choice”
- Demonstrate in-depth understanding of academic knowledge and skills
- Build 21st-century skills such as collaboration, presentation, and critical thinking/problem solving
- Create high-quality products and performances which are presented to a public audience

PBL is often cited as a valuable method by educators promoting differentiated instruction, multiple intelligences theory, learning-styles theory, 21st-century skills, and the “new 3 Rs” of rigor, relevance, and relationships.

In PBL, the project *drives* the curriculum—it provides the structure for teaching and learning. A project is not just an “applied learning activity” that follows a traditionally taught unit of instruction. Nor is it like discovery learning in its most basic form, in which students are provided with tools and activities that allow them to “discover” knowledge and skills with minimal guidance from a teacher. Instead, PBL challenges students to solve a problem through the application of content knowledge and collaborative resource-gathering, investigation, discussion, and decision-making.

Each project in *Project Based Economics* is a complete unit of instruction centered on a scenario that presents students with an engaging, realistic problem with more than one possible reasonable solution. To resolve the problem successfully, students realize they need to understand economics. This increases their motivation to learn the curriculum. Coaching students to resolve the problem posed in each unit requires a teacher to weave together a number of instructional components while remaining focused on the economic concepts around which the project is organized.

### Phases of a Project Based Economics unit: how learning unfolds

Although structured flexibly enough to allow for student discovery and



independent learning, all *PBE* projects follow a series of steps or phases. These phases may sometimes overlap, but can generally be defined as follows:

***Project launch—the Entry Event***

At the start of each *PBE* project, students either receive some type of authentic correspondence or have an authentic experience intended to engage them in the project scenario. The “Entry Event” provokes interest and generates curiosity, leading naturally to the next phase.

***Framing the inquiry—Driving Question and Knowledge Inventory***

To begin the inquiry and problem-solving process, students as a class analyze their task and write a “Driving Question” that guides the project. The teacher coaches students in the construction of a Driving Question that summarizes the problem to be resolved, which in *PBE* is written according to the model:

**“How can we, as \_\_\_\_\_?, (do) \_\_\_\_\_?, so that \_\_\_\_\_?”**

The teacher also leads the class through a discussion and recording of knowledge that the students already have (know) and information that they still require (need to know) in order to arrive at a solution to the problem. This process is repeated periodically throughout the lesson.

***Problem-solving and learning activities***

The project scenario unfolds as students receive additional information about the problem to be solved. Students work in teams to conduct independent investigation and complete project tasks, while the teacher provides resources and lessons, guided by the students’ “Need-to-Know List.” A Project Log is used to check for student understanding of key economic terms and concepts. The class revises the knowledge inventory periodically and revisits the Driving Question to help stay on track toward a reasonable resolution to the scenario. The teacher monitors students’ progress and watches for “teachable moments” when students recognize their need to know more about economics.

***Presentation, assessment, and debrief***

The project culminates as students finalize their solution to the problem posed in the scenario. Students prepare authentic products and present them to an audience and/or publicly discuss each group’s work. The teacher uses a rubric to evaluate the students’ work, and may also choose to administer a test to assess learning. The last step is to debrief the project with students, discussing both economics content and the process by which it was learned.

## Teaching in the PBL environment

Although Project Based Learning is designed to foster active, engaged learning, students do not work completely on their own or exclusively with their peers when addressing the problem presented in a scenario. PBL is most effective when accompanied by *project based teaching*.

In PBL, the teacher guides students through the process of collaborative problem-solving and the creation of high-quality products and performances. Teachers are an important provider of subject-area knowledge and remain responsible for monitoring and assessing student learning, clarifying content-related concepts and misconceptions, assigning students to work groups, and managing what goes on in the classroom. Although traditional tools such as lectures, homework, and quizzes still have a place in this setting, they are used in the meaningful context of solving a problem. The role of the teacher using PBL is one of making learning “inevitable” by carefully managing the learning process and promoting a spirit of inquiry.

### ***Make it a collaborative effort***

Timing and extent of a teacher’s instructional interventions differ from those used in traditional approaches. Effective teachers in PBL wait for teachable moments when students are interested and ready to learn before intervening or providing the necessary content explanations; they present or clarify concepts once students realize they need to understand subject-area content in order to solve the problem. Project Based Learning is most effective when it is a collaborative effort between the teacher and students, with the teacher as the senior partner.

This collaboration begins by engaging students in the problem to be solved. As you launch the unit, it is important not to reveal too much about the problem that students are about to encounter, and not to pre-teach the content and take away the motivation to learn that comes after students are “hooked” by the Entry Event. Take the problem seriously. While acknowledging that it is a scenario, point out that the problem is closely modeled on what happens in the real world. Heighten student interest and motivation by emphasizing the important effects their decisions will have (summarized in the “so that” part of the Driving Question written by the class). Model genuine interest and enthusiasm for the challenge of exploring several possible solutions.

The “teacher-as-coach” metaphor applies as students go about the tasks of conducting research, understanding the problem’s complexities, and preparing to present their solutions. Like a good coach watching athletes practice, the teacher needs to observe, diagnose, and guide

without doing students' work for them. Anticipate some needs before they arise, be prepared to meet them, and watch for new needs as they emerge—but wait until they emerge.

One of the biggest challenges for many teachers is to step back and wait for the “need to know” to arise in students. Instead of answering all questions right away, ask, “How could you find that out?” and offer suggestions and resources for further inquiry. If students get stuck at a certain point, act as a “cognitive coach” by modeling thinking strategies. Offer process-oriented comments such as, “How would I approach that issue/task? Well, I might break it down into steps, or I might want to talk with my group about \_\_\_\_, or make sure I understood \_\_\_\_\_. Or maybe I'd go back to my Need-to-Know List...”

### ***Build classroom culture***

Establishing the classroom culture is also important for successful PBL. Students must know that it is all right to take intellectual risks and offer creative solutions for critique by their classmates and teacher without fear of ridicule. A healthy spirit of give-and-take needs to be in evidence in a PBL classroom, as does the habit of reflection. Students and the teacher need to constantly ask, “What are we learning?”, “How are we learning?”, and, “What does it mean?”

Another vital part of classroom culture is collaboration. Students work in small groups in PBL, and key to their success is the ability to work together comfortably and productively. If students are not used to group work, these skills must be taught. If students are not working well together, the teacher needs to know how to intervene and smooth things out. And when students share ideas, ask questions, and present their work, whether it is to their own classmates or a public audience, a serious and respectful tone should be the norm.

### ***Invest in planning***

A teacher using PBL should be skilled in planning and organization. Before beginning a unit, make sure to read all instructions and prepare materials carefully. But, do not overplan and feel bound by a predetermined timetable. It is hard to predict exactly how each class will approach a project and what needs will arise. A certain amount of flexibility is required, as is the willingness to let go of some expectations and control. Students may propose solutions that you had not considered, or they may want to explore issues in greater depth and breadth.

A teacher also needs skill in the use of performance-based assessment. This means knowing how to assess skills such as collaboration, communication, and time and task management. You can enhance

student development of these skills by providing exemplars, well-written rubrics, and chances to practice with helpful feedback.

Teaching in a PBL environment differs from many traditional classrooms in two other ways. First, it can be noisy. That means a teacher (and his or her school neighbors and administrators) must be willing to accept occasional apparent disorder as being the inquiry process at work. Second, a teacher must be willing to personally engage with students in ways other than standing in front of the room, delivering content knowledge as the “sage on the stage.” A degree of intellectual and sometimes emotional connection with individual students is often needed to meet the challenges of PBL.

## Teaching Economics With Project Based Learning

### Chapter Two

Economics is the study of the allocation of scarce resources. Because resources are scarce, individuals, firms, and society must make choices about how to allocate resources and where to make tradeoffs. If a company decides to hire more workers, for example, it must reduce capital costs. If government spends more on defense, it must reduce spending on education or other areas (or else increase debt).

When students learn about economics through projects, they apply economic theories and principles to solve authentic problems. The PBL process also challenges them to think critically, to understand complex systems, and to explain and defend their decisions.

To help students gain a better understanding of how our economy allocates scarce resources, units included in *Project Based Economics* focus on teaching different aspects of scarcity and the related concepts of opportunity costs and tradeoffs. By integrating each of these PBL units into a high school economics course, students will have a better understanding of how the allocation of scarce resources forces individuals, firms, and society to make choices among competing goods and why those choices determine how resources are used. Taken together, the units demonstrate how our economy responds to each of the four basic economic questions:

- What is produced and in what quantities?
- How are goods produced?
- For whom are goods produced?
- Who makes economic decisions and by what process?

### Preparing students for PBL

Before launching the the *PBE* unit, we recommend introducing students to the concept of Project Based Learning. This can be accomplished with a 45-minute activity, **Make More Money?** (see Chapter Three). In this activity, students encounter an economics-related situation. As they set about solving the problem, they learn the process for how PBL works. In one class period, they gain experience analyzing an Entry Document, writing a Driving Question, conducting a Knowledge Inventory—and learning how to think and act in different ways than they might be used to in more traditional forms of learning.

## What is provided in this unit

- A **Unit Overview**, including the time required, a summary of the problem to be resolved in a scenario, the economic concepts to be learned, the placement in the curriculum of a typical high school economics course, and the NCEE Content Standards addressed
- A section on how to teach each unit, which contains:
  - **Sequence of the Unit**, a quickly referenced list of each step
  - **Step-by-Step Teaching Guide**, with detailed instructions about how to manage each step, plus sample **Driving Questions** and **Know/Need-to-Know Lists**, **Economics Content Notes**, prompts for **Project Log** entries, and **Potential Hurdles**
- A section of **Student Materials** with all student handout masters
- A section of **Teacher Materials** with a detailed review of the economic concepts and terminology within the unit, which may be used to guide the preparation of lessons for students, plus a glossary of concept definitions, answer keys for unit assignments, and rubrics for major unit products
- A multiple-choice test with an answer key

At various points within each unit, you will see two types of special **Notes to the Teacher** on effective implementation:

- **Economics Content Notes** point out key concepts students should be learning, and provide guidance on how to ensure that they do.
- **Potential Hurdles** indicate certain points during the unit when students might become confused or sidetracked, and explain how to help them.

## Teaching Strategies for *Project Based Economics*

### Scaffold learning activities

Students are supported in a variety of ways in the *PBE* units. In addition to “soft scaffolds” such as conversations with a teacher, “hard scaffolds” are provided in each unit such as charts, tables, or worksheets, to help students learn concepts and organize their ideas. Students may practice using economic concepts through oral or written exercises that build knowledge and skills necessary for the culminating task in the unit.

Efficient project-based teaching generally involves selecting content resources for students to use before they embark on solving the problems presented and creating products. These can include economic textbooks, specially prepared handouts, newspaper articles, videos, and online resources. Students should be encouraged to grapple on their own or in small groups with economic concepts, and find their own answers to content-related questions as much as possible. Consequently, it is generally best not to assign specific resources but rather to tell students what they can easily access to find the information they need to complete project tasks. It is then up to students and their groups to decide what content resources they are going to pursue.

### Provide clarifying lessons at “teachable moments”

PBL is most effective with continual dialogue between the teacher (as a coach) and students. Effective project-based teachers must actively direct students toward the curriculum goals by asking probing questions in class discussions, circulating and listening to discussions in group work, and taking advantage of teachable moments when students are ready to learn. When these moments arise, the teacher has a key role to play in explaining content-related concepts and clarifying misconceptions. The teacher may offer a quick explanation to individuals or small groups, or recognize when all or most of the class needs to be taught something as a whole via direct instruction.

When lectures are given, they should be short (hence the term used in these materials, “*mini-lecture*”) and organized. Limit lectures to the information students need at that point in the problem-solving process. A mini-lecture should be introduced by talking about it as part of the teacher’s role as “coach” for the students’ problem-solving process. It is a good idea to refer to the “Need-to-Know” list and say something like, “Many of you said yesterday that you had questions about \_\_\_\_\_, so I have some information that will answer those questions.” And, as in all cases when lectures are used, you should use the techniques of good lecturing; engage students by speaking in an interesting style, asking questions, giving examples, using visual aids, and pausing to have students think, talk, or do some activity.



## Use formative assessments

A key part of your job in project based teaching is to monitor whether students are learning the concepts the project is designed to teach. A variety of formative assessments will help with monitoring, including individual questioning, pop quizzes, checks for understanding with peers, and project logs. Here are strategies for using formative assessment tools:

- Listen to student discussions in small groups or as a whole class, and ask questions to provide a window into students' thinking and reveal confusion or misunderstandings.
- Administer a short pop quiz requiring students to demonstrate their understanding of an economic concept.
- Arrange for peers to check each other's understanding by pairing up to explain an economic concept to another student. Follow this by asking students for a show of hands to report how well they thought they explained, and how well they (honestly) thought their partner explained the concept. If this check reveals a knowledge gap or misunderstanding, conduct a short whole-class discussion or mini-lecture to consolidate understanding of the idea or concept.

Project Logs provide a structured way of assessing student understanding and are included in *PBE* units at significant points during the project. You may have students record many things in a Project Log or journal, including notes on the process of learning, comments on how well they or their groups are working, or reflections on content-related topics. Project Logs provide for individual accountability for learning the material, and allow you to assess the understanding of each student when students work in groups.

Project Log entries *must be checked soon after they are written* if they are to be used effectively as a diagnostic tool. You need to find out what students do and do not know in order to plan the next day's instruction. Apart from skimming them all, one way to do this quickly is to select a small number of representative samples from a range of students in the class. Or, students could be asked to raise their hands according to how well their entries—or their peer's, if they have swapped and read each other's logs—matched the criteria provided.

Once Project Log entries have been reviewed to assess the degree to which individual students understand the conceptual material being addressed, you can plan further instructional actions such as:

- talking with the class about the concepts in question by giving another mini-lecture
- talking with certain students or groups to address their misconceptions and misunderstandings



- giving additional textbook reading assignments, and/or directing students to online resources and explanations
- arranging peer teaching between students who are confused about the concept and those who have a solid understanding of it

### **Manage small-group work**

Although the problems posed in project scenarios can be resolved entirely by individuals or entirely through whole-class effort, Project Based Learning is most effective when students are required to work in small groups. Consequently, all *PBE* unit scenarios place students in the role of a team with three to six members. This gives students the opportunity to discuss their ideas and questions with peers and develops the skills of stating a position, listening to others' positions, respectfully disagreeing with others, and collaborating and compromising. There is no always-applicable guidance for forming groups, and you will have to think about your students and decide who works well together. Generally, we encourage teachers to include students with different interests and abilities in the group so that a range of talents and skills can be applied to the project. And, it is generally *not* a good idea for students to choose their own groups based on friendship alone.

Coaching and monitoring groups is important. Most groups will need some assistance maintaining a task focus. Groups may also need help maintaining a positive attitude or dealing with group members who are not carrying their weight. Although PBL is predicated on students taking charge of their own learning, teachers need to monitor this process continually, and pull groups into impromptu conferences when their process bogs down.

### **Communicate standards of excellence**

Rubrics that specify the characteristics of quality work and exemplars of finished products are included in each *PBE* unit. Students should be given the rubric midway through the project, to guide them as they prepare the required major products and performances. Students should not be given the rubric at the same time they receive the Entry Document at the beginning of the project as part of a "complete packet of materials" for the whole unit. They need some time to define for themselves what they have to learn to resolve the problems posed by the scenario, and receiving the rubric or other materials too soon short-circuits that process.

### **Manage presentation and critique of answers to the Driving Question**

All *PBE* units include the preparation of some sort of tangible product and/or performance to communicate an answer to the Driving Question—essentially, the solution a group has developed to the problem posed in the project scenario. Students will need guidance in the preparation of these

products, as well as the opportunity to practice and receive feedback on their work as much as possible from their peers and teacher. After students' solutions have been presented, the class should compare and discuss them, as explained in the debrief phase of each unit.

**Oral presentations** to the class or a panel are a valuable component of many *PBE* units. As teachers know well, you're often not really sure if you understand something until you explain it to others. However, managing oral presentations well presents several challenges. Student groups need time to prepare and practice. The expectations for a good oral presentation should be made very clear, including presentation techniques and proper attire, posture, attitude, and group member participation. The rubrics accompanying each unit provide guidance to students on the use of content knowledge as well as oral presentation skills.

**To help ensure proper participation by all group members**, experienced teachers use several strategies. One is to explain that everyone will be held responsible for understanding all parts of an oral presentation and the visual aids that accompany it—and the rubric and grading criteria will reflect this goal. In addition, groups could be informed that even if they have decided in advance who will say what during the formal part of a presentation, *anyone* may be asked a question about *any part* of the presentation. Or, a teacher could tell students they will be picked at random just before the presentation to deliver various parts of it, thereby putting all group members on notice that they all need to be prepared to fully participate.

**On the day of presentations**, if the number of groups is not too large, there may be time for each group to make a presentation. However, a potential problem with this approach is that groups tend to repeat themselves, and by the time the fourth or fifth group has made its presentation, there is very little new left to say or very few new questions to ask the group. Also, students in groups presenting nearer the end may have an advantage by hearing previous presentations. This can be avoided if it is possible to send the rest of the class to the library or another room, so each group can present only to the teacher or panel—or have presenting groups go to another location. If all students need to remain together, give student audience members a task. Have them listen to other presentations and make notes of good points made and good answers to questions, as well as how they might have done it differently. Some classes may be ready to assess their peers' performance, using a rubric or other set of criteria while they observe and listen.

## **Practice 21st-century skills**

To meet the challenges of the changing economy in the United States and across the world, and become participating citizens in a democracy, students need to learn more than basic skills and acquire subject-area knowledge. Accordingly, all *PBE* units provide opportunities for students to learn and practice 21st-century skills such as collaboration (e.g., working well with others, sharing resources, arriving at consensus), critical thinking (e.g., gathering relevant information, generating and evaluating solutions to problems), and communication (e.g., discussing ideas, writing, making an oral presentation, using technology). You can discuss, teach, and even assess these skills before, during, and at the end of every project.

## **Establish group and individually based grading procedures**

As students usually work together to create the products and/or performance that culminate a project, you may need to assign a single grade for that product, given to all students working in the group. Of course, however, some students—like some adults—will become freeloaders and allow others to do their work for them. Self-reports, combined with group self-evaluation and group leader reports, can provide some information on how much each student may have worked, but not how much each has learned. Students will take more responsibility for their learning, and learn more, if they know their economics content understanding will be assessed individually, so let them know the group product is not the only component of their grade. Instead of relying on one speaker to make a presentation, they should be asked to divide up the task—and be ready for questions about *any* part of it, not just the part they did. But since time is usually short, questioning students during oral presentations can only be a partial assessment strategy. Consequently, multiple-choice tests that can be used to assess individual student understanding appear at the conclusion each *PBE* unit. Additionally or alternatively, you could require students to turn in individual written assignments or take a short-answer/short-essay test. You will have to work out what is most appropriate for your own grading system, but the fundamental idea holds: Make sure to assess students individually on their content knowledge, in addition to any group assessment you conduct.

## **Allow for several possible “right answers”**

Part of what engages students in Project Based Learning is knowing that they can make choices and are not simply “doing what the teacher wants.” All *PBE* unit scenarios are built around problems for which there can be multiple reasonable solutions. There are also solutions which are clearly wrong; not every solution will work. Guidance on evaluating reasonable and unreasonable solutions for each unit is offered in the **Step-by-Step Teaching Guide**.

## **Stay within the project scenario**

Since the scenarios are hypothetical, students often want to add details, modify what is known, or otherwise *change* the scenario so that it is easier to resolve the problem presented. Such creativity will sabotage the core purpose of the project—it has been carefully developed as a vehicle to teach specific economics content. All *PBE* units have been developed in close consultation with U.S. high school teachers, tested in their classrooms, and revised based on their feedback to ensure that the project, although enjoyed by most students, does not become merely a “fun activity.” The project has been created to achieve a serious instructional purpose, and deviating from the project scenario’s storyline tends to focus students’ attention on irrelevant or less important learning objectives.

## **Consider needs of English language learners**

Students who are learning to speak, read, and write English can benefit greatly from Project Based Learning, but special scaffolding may be necessary. They may need more time to complete tasks, more vocabulary-building, and more peer-to-peer support. Some of the authentic-sounding documents presented in *PBE* scenarios may contain jargon, slang, or cultural references that will need to be explained. When forming small groups, care should be taken to assign students learning English to teams with supportive and skilled members. Finally, oral presentations may present special challenges—ELL students may be allowed to participate to a lesser extent than other group members, and/or be given questions to be answered later in writing, rather than “on the spot.”

## Make More Money?

### Chapter Three

*An Activity to Introduce Students to the  
Project Based Learning Methodology*

#### Overview

In this activity, students are presented with a problem-solving task focused on a fictitious high school senior who wants to drop some classes in order to work more hours. In the role of a counseling team at the school, students investigate the facts of the situation, consider the personal and economic choices involved, and recommend a reasonable solution.

Although this activity touches on some basic economic concepts, it is primarily designed for another purpose—to demonstrate the instructional methodology of Project Based Learning (PBL). It may be used with two groups of participants: high school students in the classroom, or their teachers in professional development workshops. The Buck Institute for Education (BIE) has field-tested this activity successfully with both groups. With students, we recommend using it prior to teaching the units from the *Project Based Economics* series. The instructions below are written with this use in mind. (If the activity is being used with an audience of teachers, they should experience it much as students will, which is the best way to learn how to implement it.)

Project Based Learning may be an unfamiliar process for many students and teachers. In this activity, which requires less than a typical class period to complete, students will become familiar with many of the key elements of the methodology as designed by BIE for its economics units. Like the *PBE* units, the **Make More Money?** activity begins with a problem-solving scenario (not all projects in PBL begin this way, but it is an effective option). PBL is an inquiry-based process that springs from what students identify they need to know in order to solve the problem presented in the scenario. Accordingly, it is important not to “frontload” any information before starting the activity. Do not conduct a discussion, assign reading, or give a lecture in advance about the value of going to college vs. going to work, nor tell students all about PBL. It is sufficient to simply say, “Now we’re going to do an activity that will introduce you to one of the ways we’re going to learn about economics in this course.” The first thing students should see is the Entry Document, the note that launches the scenario. After the scenario has run its course, the debriefing time is when the principles and features of PBL should be discussed, along with any content-related issues or further work on the topic that the teacher would like to do.

Project Based Learning has proven effective in teaching content knowledge as well or better than a traditional lecture/textbook approach, improves

retention of knowledge, and contributes to the acquisition of 21st-century skills such as collaboration, presentation, and critical thinking. Moreover, it increases student engagement and interest in the subject of economics, which is important in their lives as workers and citizens.

## **Content standards addressed**

### ***Voluntary National Standards in Economics:***

**Standard 1:** Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

**Content keywords:** scarcity, tradeoffs, opportunity cost

## **Materials needed**

- One copy for each student or pair of students of the Entry Document, the note from a student, “AJ,” with the additional context for it
- To have on hand in case students request it: copies or a displayed version of the handout, “Earnings by Education Level”
- Chart paper, whiteboard/chalkboard, overhead transparency, or computer and LCD projector

## **Procedure (40–50 minutes)**

1. Read the **Entry Document** aloud as a whole class (page 22, note from “AJ” with added context)
2. Write an **initial “Driving Question”** as a whole class (recorded on a projector, chart paper or board)

Sample:

**How can we, as the counseling team, find out what's going on with AJ, so we can help him/her make a good decision?**

3. Write a list of **“What Do We Know?”** as a whole class (recorded on a projector, chart paper or board)

Sample:

- We're a high school teacher who got a note from a student
- It is September
- AJ is an 18-year-old high school senior
- AJ wants to drop classes

- AJ isn't sure about going to college right away
- AJ has seemed withdrawn and distracted lately
- AJ's grades have slipped
- We are on AJ's counseling team
- AJ won't graduate on time if s/he drops classes
- AJ wants to work more and make more money
- AJ doesn't want his/her parents involved

**4. Write a list of “What Do We Need to Know?” as a whole class (recorded on a projector, chart paper or board)**

Sample:

- Is AJ male or female?
- What classes does AJ want to drop?
- Why has AJ been distracted and withdrawn?
- What college was AJ planning to go to?
- Why doesn't AJ want his/her parents involved?
- Do AJ's parents agree with this decision?
- What job does AJ have?
- How much money does AJ make?
- What does AJ need more money for? Is it urgent right now?
- Has AJ thought through the consequences of not going to college?
- How much more money could AJ make in the long run by going to college?

**5. Discuss what **resources** could provide answers to our “need to know” questions.**

For example, some answers could be found through research—such as a comparison of earnings in jobs requiring college degrees vs. jobs that only require a high school diploma—and some might need to come from actually talking to people. Students should recognize, or be coached to see, that the best way to get more information at this point is to talk to AJ—so tell them AJ will be here in a minute for a meeting.

**6. Students take 2–3 minutes, working in pairs or small groups, to plan **questions to ask AJ.****



7. *If they ask for it*, students receive the handout **found on page 24, which shows earnings by educational attainment**. This information may give students ideas for what to discuss with AJ, and should be very briefly discussed as a class. If students do not request this information, the handout may be held for the debrief as an optional discussion piece if you want to use it.
8. Students ask questions during a **“live” meeting** with someone playing the role of AJ.
  - AJ is reluctant to talk, but eventually reveals details about the decision to drop classes.
  - For suggested responses to questions, see “Guidelines for Conducting the Interview and Playing the Role of AJ” below.
  - After AJ reveals the “secret”—that he/she needs more money to help support the family since the father was laid off—the interview ends.
9. Revisit the **Know/Need-to-Know Lists** and revise the **Driving Question** as a whole class.

Point out that students now have answers to some of their “need to know” questions—and that the list of “what we know” has lengthened. To save time, you do not actually have to write new items on the lists. However, do ask students if they think the Driving Question still fits or if they want to change it, and do so. A new Driving Question might be:

**How can we, as the counseling team, talk more with AJ and his/her parents, so we can help him/her graduate on time and go to college?**

10. **Wrap-up:** Explain that although they may not have all the answers to their “need to know” questions, it is now time to propose solutions, or at least say what they would do next. Allow 2–3 minutes for students working in pairs or small groups to brainstorm possible solutions, and then share them aloud and evaluate them.

Sample of possible solutions:

- Try to rearrange AJ’s class schedule so he/she can complete courses required for graduation and still work the required hours.
- Talk with AJ’s parents to try to find a way to keep AJ on track for graduation and attending college.
- Go ahead and do what AJ wants.
- Recommend independent study or the Graduate Equivalency Diploma (GED).



### Economics Content Note

Discuss the economic concepts of *scarcity*, *tradeoffs*, and *opportunity cost*.



### Potential Hurdle

Discuss what this activity demonstrates about Project Based Learning.



**11. Debrief** with the whole class by leading a brief discussion about both the economics content and the process of learning in PBL.

**Economics Content Notes:** Discuss the economic concepts of *scarcity*, *tradeoffs*, and *opportunity cost*:

- Since the time available for work is a limited, or scarce resource, AJ must consider the trade-offs between work and further education.
- Point out that the cost of AJ's decision can be thought of in terms of what he/she gives up—the opportunity cost—by working more hours to make more money now, versus going to college and earning more later. If you wish, introduce the data comparing earnings of college graduates vs. high school-only graduates.

**Potential Hurdle:** Discuss what this activity demonstrates about Project Based Learning:




- There is no *single right* answer to the problem in the scenario—it is “open-ended”—but there are **wrong** answers. For example, denying AJ's request without further discussion or contact with his/her family would probably be a mistake.
- **It is important to be persistent.** During the “live” interview, encourage students to find different ways to ask AJ the same question. During the debriefing, point out that persistence is an important “habit of mind” for PBL.
- **Frustration is OK—it is an important part of PBL.** Ask students if they were frustrated at any time during the process. This often leads to a discussion of how students become frustrated during research or other inquiry-based assignments when they cannot find the answers easily. You should allow for some frustration but also offer coaching if students are getting too far off track. Focus students back on the “need to know” list when they are having difficulty thinking of questions to ask AJ.
- **The Driving Question and the Know/Need-to-Know Lists are important tools** for keeping on task and focused on the problem to be solved as it evolves.
- **Good PBL gets students to ask questions about content.** Asking questions demonstrates that students are open to learning, which can lead to “teachable moments.” Rather than give students the answers too quickly, record questions as they come up and have students investigate. In this activity, the information on average earnings by level of education was handed out, but it could have been easily researched by students if there was more time.
- **New information leads to shifts in perspective—and new questions.**

For example, learning that AJ needs more money to support his/her family, not for frivolous expenses, creates a major shift in the way students think about the problem, and new “need to knows” could be identified.

- **Decisions are often made under conditions of uncertainty.** Just like people in the real world, students do not always have complete information on which to base decisions. Some of the items on the “need to know” list in the **Make More Money?** activity may not be answered, but that doesn’t mean reasonable solutions to the problem can’t be proposed.

## Letter From AJ

You are a high school teacher who is also on a counseling team, and one day in September you received this note from a student your team counsels:

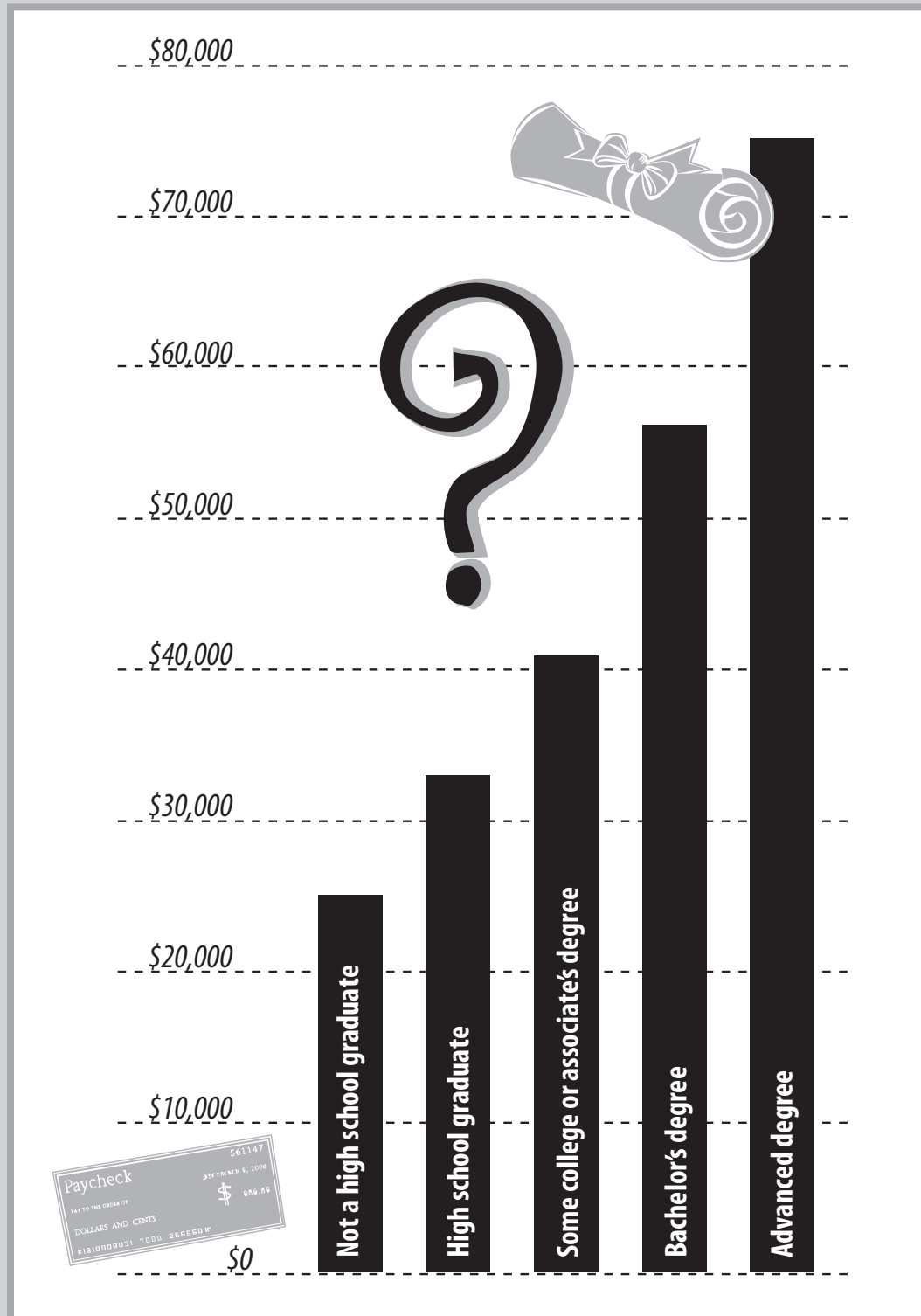
	
	Dear Counselors:
	I want to drop some of my
	classes this semester. I know
	this means I won't graduate on
	time but I'm a senior and can
	make my own decisions since I
	just turned 18. I probably won't
	go to college right away either.
	I want to work more hours at
	my job so I can make more
	money. Please don't involve my
	parents in this.
	AJ Jones
	

You have always thought AJ was doing just fine in school—but then you remember hearing that AJ's grades have been slipping lately and that AJ has seemed somewhat distracted and withdrawn. You've decided to take this to the counseling team for action.

# Guidelines for Conducting the Interview and Playing the Role of “AJ”

- The role of AJ may be played by a male or female—either you, another adult, or a competent student who has been rehearsed.
- AJ should be very reluctant to talk at first. Avoid answering direct questions by saying things like, “It’s a personal decision,”—“I just want to work more hours,”—“I’m 18 and can handle myself,”—“It’s nothing to do with not liking school or having trouble or anything.”
- Slowly reveal the following information, when asked about it:
  - Job is at a local supermarket; bagger and stocker now, but could become a checker soon
  - Hourly wage is \$8
  - Now work 15 hours a week, want to increase it to 40
  - May have appeared withdrawn and distracted because of this decision, but nothing else is going on (relationships are good, no drug/alcohol abuse, no physical or mental problems, no difficulties with school, etc.)
  - Want to drop government, economics, and English classes and keep art, yearbook; not taking math or science this year but have taken three years of each
- Be evasive about what the money is needed for—“Oh, I just want to buy stuff,” ... “My cell phone bill is pretty big,” ... “I might get a car, better clothes, just spending money for going out with my friends, you know...,” ... “And I’ll save some money too.”
- Show discomfort when talking about your parents. Say you do not want to involve them because, “I’m 18 and can make my own decisions,” ... “I don’t want them to stress about me,” ... “They’ve got my two brothers and sister to worry about.”
- If asked, “Why not wait to work more until after you graduate?” AJ should respond, “I really need the money now.” (This should be said in a way that begins to raise suspicions, and/or show discomfort with body language and facial expressions.)
- If the group is getting too frustrated and/or you wish to end the activity, give a clue about what question to ask to get AJ to reveal the “secret” by saying, “My family...I mean, I really need the money now.”
- Upon further questioning, it should be revealed that AJ’s father has suddenly been laid off from his job (you could choose something in a downsized sector of the economy—computer programming, auto-parts factory, etc.). AJ feels like s/he should work to help support the family, but they would be ashamed to admit it, and would not want AJ to do this.
- *After this last piece of information is revealed, the meeting ends and “AJ” leaves.*

## Median Earnings for Full-time, Year-Round Workers Age 25 and Over by Educational Attainment (2007)



Source: [www.census.gov/prod/2009pubs/p20-560.pdf](http://www.census.gov/prod/2009pubs/p20-560.pdf)

# The President's Dilemma

## Chapter Four

### Purpose and Overview

#### Time required

10–12 class periods

10–12 class periods

#### Project scenario

In a mixed-market economy like the United States, the federal government uses fiscal and monetary policy tools to influence the behavior of individuals, firms, and financial institutions. However, in attempting to improve the performance of the nation's economy, the government encounters the problem of resource scarcity. Tradeoffs must be considered; some groups may be harmed in order to help another group in society. To explore these concepts and gain some understanding of macroeconomic analysis, students are presented with the following problem-solving scenario in this project:

*Due to a rapid rise in oil prices, the United States is facing a severe economic crisis with high levels of inflation, high unemployment, and slow economic growth. The President, whose approval ratings are plummeting, has asked a Special Task Force of the Council of Economic Advisors to recommend a policy to deal with the crisis without increasing the national debt. The Task Force is asked to make an oral presentation with visual aides to a panel composed of representatives of constituencies that have a targeted interest in the economic solution proposed. As students learn about leading economic indicators and fiscal and monetary policy, letters arrive from three panel members. Each constituent argues for policies that benefit their interest group—unemployed middle-class workers, retired people, and business representatives. Students must consider both supply-side and demand-side options and weigh the costs and benefits of various solutions as they recommend policies that balance the needs of the nation.*

#### Concepts to be learned

To successfully resolve the problem and complete the products required in this project, students need to understand and be able to apply the following economic concepts:

## Purpose and Overview

- Budget deficit
- Consumer price index
- Contractionary policy
- Cost-push inflation
- Demand
- Demand-side theories
- Discount rate
- Crowding out
- Economic indicators
- Expansionary policy
- Federal reserve system
- Fiscal policy
- Government spending
- Gross Domestic Product (GDP)
- Inflation
- Interest rates
- Monetary policy
- Multiplier
- National debt
- Open market operations
- Opportunity cost
- Reserve requirement
- Scarcity
- Supply
- Supply-side theories
- Tax
- Tradeoffs
- Unemployment rate

**NCEE content standards addressed**

*The President's Dilemma* addresses the following *Voluntary National Content Standards in Economics* codified by The National Council on Economic Education, in partnership with the National Association of Economic Educators and the Foundation for Teaching Economics. For more information see [www.ncee.net/ea/standards](http://www.ncee.net/ea/standards).

Standard #	Economic Concept
1	Scarcity
2	Opportunity cost
12	Interest rates
15	Investment
18	Gross Domestic Product
19	Unemployment and inflation
20	Fiscal and monetary policy



## Teaching *The President's Dilemma*

### Sequence of the unit

Like the other BIE *Project Based Economics* units, students complete *The President's Dilemma* by following a standard set of activities in a proscribed order. But within these activities, there will be variation in the timing and in the way students complete them.

The sequence of instructional activities is described below. This sequence is logical, and is based upon extensive pilot testing in high school economics classrooms. It is also informed by research into effective instruction. Although changes may be necessary to meet time constraints, address the needs of specific student populations, or include additional instructional materials and learning opportunities, we strongly encourage teachers to adhere to the sequence of activities as closely as possible—at least during the first several times *The President's Dilemma* is taught. Each instructional activity is discussed in more detail in the following section, the *Step-by-Step Teaching Guide*.

### Pre-project planning

0. **Prepare** for successful project implementation.

### Launching the project

1. Students receive **Entry Document, the memo from the President**, and discuss it as a whole class.

### Framing the inquiry

2. Students develop the **initial Know List** with you (whole-class discussion).
3. Students develop the **initial Driving Question** with you (whole-class discussion).
4. Students develop the **initial Need-to-Know List** with you (whole-class discussion).

### Problem-solving and learning activities

5. Provide **Clarifying Lesson #1** on *economic indicators*.
6. Students receive **national statistics table** and review it with you (whole-class discussion).
7. Students write **memo comparing current crisis** with economic indicators in the past (in small groups).
8. Students receive **letter from Maria Bautista**, Policy Analyst for the Campaign for Job Security, and discuss it as a whole class.
9. Provide **Clarifying Lesson #2** on *fiscal policy tools*.

10. Students individually write **first Project Log entry**.
11. **Review individual Project Log entries** to assess understanding of economic concepts.
12. Students receive **letter from Angela Soracco**, president of a retired persons' association, and discuss it as a whole class.
13. Provide **Clarifying Lesson #3** on *monetary policy tools*.
14. Students individually write **second Project Log entry**.
15. **Review individual Project Log entries** to assess understanding of economic concepts.
16. Students receive **letter from William M. Jorgenson**, CEO of the Henry J. Car Corporation, and discuss it as a whole class.
17. Students individually write **third Project Log entry**.
18. **Review individual Project Log entries** to assess understanding of economic concepts.
19. Students **work on policy recommendation** (in small groups).
20. Students receive **memo from Chief of Staff**, and discuss it as a whole class.
21. Students **finalize the Know/Need-to-Know List** (whole-class discussion).
22. Students **finalize the Driving Question** (whole-class discussion).
23. **Share supplied rubric with students** to guide their work.

#### ***Presentation, assessment, and debrief***

24. Students **work on policy recommendation and plan presentation** (in small groups).
25. Students **present policy recommendations** (in small groups).
26. Use supplied rubric to **assess presentations** and written summaries.
27. Conduct **debrief to clarify and consolidate** students' understanding of key economic concepts (as necessary).
28. Manage **student reflection** on the 21st-century skills practiced and the process of learning in PBL.
29. Use supplied **multiple-choice test** to assess individual students' knowledge of key economic concepts.
30. Make **notes on adjustments to the unit** to improve student learning for the next time the unit is taught.

## ● Step-by-Step Teaching Guide ●

Each of the above instructional activities is discussed in more depth below, with tips for successful classroom implementation.

### **Pre-project planning**

#### **0. Prepare for successful project implementation.**

There are a number of issues that must be considered before embarking on a project with students. These include:

- How much time will be devoted to the project?
- What economics content resources need to be prepared in advance (textbooks, articles, websites, etc.)?
- Do all students have the skills they need to tackle the project—including basic literacy skills as well as the ability to work in teams, make presentations, and conduct research? If not, is it necessary to pre-teach some of these skills, make sure students who need it have adequate support, or deal with these challenges in other ways?
- How will student groups be formed?
- How will groups report on their progress and be held accountable? Do report forms or other tools need to be developed?
- Is it necessary to arrange access to the library/media center or computer lab?
- Do parents or administrators need to be informed about the process of Project Based Learning and be assured that time spent on the project is focused on standards-specific learning goals?

In addition to considering the above issues, be sure student handouts and clarifying lesson/mini-lecture materials are ready—or at least underway.

### **Launching the project**

#### **1. Students receive Entry Document, the memo from the President, and discuss it as a whole class.**

*The memo from the President may be found in the **Student Materials**.*

Have one or more students read aloud the Entry Document while the whole class focuses on it.

The memo can be projected so it can be read by the whole class.

Alternatively, copies of the memo can be duplicated and passed out to students, or viewed online as an email or document posted to a website.

**Potential Hurdle:** As this memo sets up the scenario and the problem to be solved, it is essential that the entire class be able to read and comprehend the text. If necessary, employ the same literacy-building strategies you would normally use for this kind of reading material.

**Synopsis of memo:** Due to a rapid rise in oil prices, the United States faces a severe economic crisis with high levels on inflation, unemployment, and negative economic growth. The President, fearing prospects for reelection, has asked a Special Task Force of the Council of Economic Advisors to recommend a policy that does not increase the national debt. The Task Force is asked to make an oral presentation with visual aides to a panel composed of representatives of various constituencies. The President also asks the Task Force, as a first step, to compare current economic indicators with statistics from the past.

**Economics Content Note:** The memo contains a number of economic terms, such as unemployment, inflation, and economic growth. This is intentional. It is assumed that students will either not understand these terms or have misconceptions regarding their meanings. Do not, at this point, explain to students the meaning of these terms. Tell students they should put these terms on the list of what they “need to know” to resolve the problem. Figuring out the meaning of economic terms is something students should, as much as possible, do for themselves (with your monitoring and guidance) once they begin working to solve the problem.

## Framing the inquiry

### 2. Students develop the initial “Know” List with you (whole-class discussion).

Students must now assess what they already know about the problem posed in the Entry Document. This should be done as a whole class by creating a “What Do We Know?” list on chart paper, an overhead transparency, or a computer projector. Ask students to carefully review the Entry Document and offer items for the list, making sure to *only record what is in the text, not what might be inferred*. Students should be coached to identify all of the information that the Entry Document provides. They should conclude that this information is insufficient to solve the problem, and they need to know (learn) additional things.

Although each class generally produces a unique Know/Need-to-Know List, an example of the type of items that might appear on the first Know List follows.



#### **Potential Hurdle**

It is essential that the entire class be able to read and comprehend the text. If necessary, employ regular literacy-building strategies.



#### **Economics Content Note**

Do not at this point explain to students the meanings of the lesson’s economic terms. They will figure out their meanings once they begin working to solve the problem.

**Example of initial Know List***What do we know?*

- The President sent this memo to a special task force of the Council of Economic Advisors
- There is an economic crisis caused by rising oil prices
- There have been oil “supply shocks”
- Unemployment is high—12.5%
- Inflation is high—9%
- The economy has slowed the past two quarters
- Middle managers are also losing their jobs
- Homelessness is rising rapidly in cities
- Businesses are contracting
- We need to recommend a policy to deal with the crisis
- The President is being criticized for not doing enough and popularity has dropped
- We need to make a presentation with visuals to the President and a group of people
- We need to turn in a written summary before our presentation
- We cannot increase the national debt
- The President is worried about reelection
- The President also wants a memo ASAP comparing this economic crisis to the past
- The President is going to make a speech to the nation

At this point, do not ask about solutions, as this might negate or offset information gathering, which is the most important part of the problem-solving process right now.

**3. Students develop the initial Driving Question with you (whole-class discussion).**

After students have discussed the memo from the President, and you are satisfied that students understand it, lead students in drafting an initial Driving Question. This is generally done as a whole-class discussion.

A Driving Question is a succinct declaration of the general problem students are to solve. In PBL it takes the following form:

**How can we, as... [the role(s) being assumed by the students], do... [the specific task(s) students must complete], so that... [the specific result or goal(s) to be accomplished].**

The initial Driving Question may be quite different from the Driving Question that will emerge as students think about and work on the problem. This is to be expected. The Driving Question generally evolves as students gain more insight and knowledge into the problem and its underlying issues. The initial question may look something like:

**How can we, as the Special Task Force of the Council of Economic Advisors, develop a policy, so that we fix the economy without increasing the national debt?**

At this point, it is fine to keep the Driving Question ill-defined. It is not necessary for the Driving Question to contain economic terms or, if it does, to use the economic terms correctly. The Driving Question will become more refined as students learn more, and as new developments in the scenario unfold.

**Potential Hurdle:** Students may want to write a Driving Question that includes the memo they are asked to write comparing this crisis with economic conditions in the past. It would be okay to either write a lengthier Driving Question to include this, or write a “short-term” question after writing the “long-term” one above.



#### **Potential Hurdle**

It is okay to write a lengthier Driving

Question to include the memo students are asked to write, or to write a short-term question after the long-term one above.

#### **4. Students develop the initial Need-to-Know List with you (whole-class discussion).**

The next step in the problem-solving process is to coach students to identify information they need to know in order to answer the Driving Question. Again, guiding students to pay close attention to all parts of the memo, create a “What Do We Need to Know?” list. If students are missing a key piece of information about the scenario, the content, or their task, ask questions to elicit items for the list. *This is critical because everything students are taught in the unit must spring from this list.*

At this point in the problem-solving process, students will probably list things that they actually do *not* need to know. Allow students to do so. The class will return to the Know/Need-to-Know List again later, having learned more about what they need to know to solve the problem, and should recognize irrelevant concerns at that time. A core part of the process of Project Based

Learning is to distinguish what information is and is not necessary to successfully answer the Driving Question. As much as possible, encourage students to identify irrelevant information on their own.

Although each class generally produces a unique Know/Need-to-Know List, an example of the type of items that might appear on the list follows.

***Example of Initial Need-to-Know List****What do we need to know?*

- What is the Council of Economic Advisors?
- Who is the President? Is he or she a Democrat or Republican?
- What is a “supply shock”?
- How bad is the crisis compared to other ones?
- What is inflation?
- What is economic growth?
- Why is there high unemployment?
- What is a “middle manager” and why are they important?
- What does “businesses are contracting” mean?
- When is unemployment high enough to be a problem for the country?
- What caused the rise in oil prices?
- Can we reduce the price of oil?
- Can we increase the supply of oil?
- What can the government do to help with the crisis?
- When is the election?
- Why did high oil prices cause a crisis?
- What was the President’s economic policy before now?
- How long has the crisis been going on? Will it end eventually?
- What are leading economic indicators?
- How have situations like this been dealt with in the past?
- Do other potential presidential candidates have solutions to the problem?



## Problem-solving and learning activities

### 5. Provide Clarifying Lesson #1 on economic indicators.

*For information to include in this lesson see “Economics Review” in the **Teacher Materials**.*

Note that this lesson will help answer students’ questions on the Need-to-Know List about inflation, unemployment, economic growth, leading economic indicators, and so on.

This lesson can be provided to students using a combination of mini-lectures, activities, and reading selections from a textbook and other print and online resources, some of which may be assigned as homework.

**Economics Content Note:** This lesson should emphasize how statistics can be used to gauge the health of an economy. Students should recognize that economic indicators are used to monitor how well an economy is achieving its economic goals (economic growth, high employment, and low inflation) and that different indicators play different roles in measuring the economy. Leading indicators predict where the economy might be going. Coincident indicators show where the economy currently stands, and lagging indicators are slow to respond to economic changes.

### 6. Students receive national statistics table and review it with you (whole-class discussion).

*The table “National Statistics for Selected Years” may be found in the **Student Materials**.*

This table may be used in conjunction with the clarifying lesson above, or may be explained just afterward. This table contains key economic indicators for various years: Nominal and Real GDP, Percent change in GDP, Discount Rate, Consumer Price Index, Rate of Inflation, Unemployment Rate, and Public Debt. Remind students that their first task is to write a memo comparing current economic data with the past. Students should use the information in this table to place the current economic crisis within an historical context.

### 7. Students write memo comparing current crisis with economic indicators in the past (in small groups).

Now form students into small groups of four to six—these will be the Special Task Force teams for the rest of the project. See notes on forming and managing groups in Chapter Two, *Teaching Strategies for Project Based Economics*.



#### **Economics Content Note**

This lesson should emphasize how statistics can be used to gauge the health of the economy. Students should recognize the roles of different kinds of economic indicators (leading, coincident, and lagging) in monitoring how well an economy is achieving its economic goals.



### Economics

#### Content Note

Make sure that students understand the seriousness of the scenario—unemployment and inflation are much higher than normal, with rare negative GDP growth.



Ask students to work in their groups to analyze and discuss the table in comparison with what they know about the current crisis. Circulate among groups to answer questions and to keep students focused on the columns showing inflation rates, unemployment rates, and changes in economic growth. Allow students enough time to write their memo in class so it is a group effort.

**Economics Content Note:** When you collect the memos, look for evidence that students understand that the current crisis is indeed serious, because:

- Current levels of unemployment are higher than in most other periods—except the Great Depression years of 1933, 1939, and 1940.
- Current levels of inflation are higher than all periods—except in 1942 during supply shortages early in World War II, and in 1980 after rapid oil price increases of the late 1970s.
- Negative GDP growth also is relatively rare—again, seen only in 1933 (Great Depression), in 1946 when WWII ended and wartime production levels dropped, and slightly in 1976 and 1980.

You may wrap up this step with a whole-class discussion if you wish.

### 8. Students receive letter from Maria Bautista, Policy Analyst for the Campaign for Job security, and discuss it as a whole class.

*The letter from Maria Bautista may be found in the **Student Materials**.*

Read this letter aloud as a class, then discuss what aspect of the economic crisis the writer is focused on and why—and what she wants the President to do.

**Synopsis of letter from Maria Bautista:** Since she represents a workers' political action committee, Ms. Bautista focuses on unemployment. She highlights the growing sense of despair among workers around the country who fear they soon will lose their jobs and won't find re-employment opportunities. She warns that the recently unemployed and angry Joe Brezinski will represent her organization at the presentation by the President's economic task force.

**Economics Content Note:** Students should be able to see that demand-side policies can be targeted in many different ways. While they often focus policies on working middle-class individuals, (e.g., "let's help by giving them a tax break"), they should be coached to see that, while middle-class people with jobs appreciate these policies, policies should be designed for the middle-class people without jobs—i.e., the demand-side policies. As a teacher, your major focus is to show students the myriad policies that

### Economics

#### Content Note

Demand-side policies can be targeted in many ways, but the emphasis here is on helping the unemployed middle-class.



can be enacted, with each policy focusing benefits on a different group of individuals.

**Optional:** You and/or your students may wish to add items from the letter to the Know/Need-to-Know List at this point.

## **9. Provide Clarifying Lesson #2 on fiscal policy tools.**

*For information to include in this lesson see "Economics Review" in the **Teacher Materials**.*

Note to students that this lesson will help their questions on the Need-to-Know List about what the government can do to help ease the economic crisis.

This lesson can be provided to students using a combination of mini-lectures, activities, and reading selections from a textbook and other print and online resources, some of which may be assigned as homework.

**Economics Content Note:** This lesson is designed to provide students with a comprehensive overview of fiscal policy tools, including criticisms of them. Students should understand how government spending or taxation can be used to expand the economy or to contract it and why critics believe it to be totally ineffective. Students should also understand how fiscal policy can be targeted toward consumers (the demand side) or firms (the supply side). The lesson should also introduce students to the multiplier effect.

## **10. Students individually write first Project Log entry, answering the following question:**

***How can fiscal policy be used to help workers like Joe Brezinski?***

Project Log entries do not have to be long, but they do need to be completed for Project Based Learning to be most effective. They may be assigned either as in-class tasks or as homework.

## **11. Review individual Project Log entries to assess understanding of economic concepts.**

*For tips on reviewing Project Logs, see "Use Formative Assessments" in Chapter Two discussion of **Teaching Strategies for Project Based Economics**.*

**Economics Content Note:** Be sure students show they understand how expansionary fiscal policy might be used to pull the economy out of its current crisis. Make sure students don't suggest policies that might increase



### **Economics Content Note**

Students should

understand how government spending or taxation can be used to expand or contract the economy, as well as criticisms of this practice; that fiscal policy can be demand-side or supply-side; and the concept of the multiplier effect.

### Economics

#### Content Note



Students should understand how expansionist fiscal policy might pull the economy out of crisis, but they must remember not to also increase the national debt. Since most policies students develop would increase the debt, they also need to consider whether to try to convince the President to approve a debt increase..

the debt (e.g., increase spending and reduce taxes), since the memo from the President explicitly states that debt cannot be increased. Students might quickly realize that most policies they develop will increase debt. They need to consider whether or not they will try to convince the President to increase the debt. If you notice that students do not understand these concepts, you may need to further clarify them by talking with the whole class, individuals, or small groups.

## 12. Students receive letter from Angela Soracco, president of a retired persons' association, and discuss it as a whole class.

*The letter from Angela Soracco may be found in the **Student Materials**.*

Read this letter aloud as a class and then discuss what aspect of the economic crisis the writer is focused on and why—and what she wants the President to do.

**Synopsis of letter from Angela Soracco:** Since Ms. Soracco represents a retired persons' association, she is most concerned about rising prices. She notes that most retired Americans have fixed incomes, so inflation makes basic necessities less affordable and erodes the value of assets such as pensions and homes. And since they rely on Social Security benefits, older people would be harmed by any reductions in these transfer payments.

### Economics

#### Content Note



While Social Security benefits are indexed to inflation, students should understand that the retired also rely on pensions and assets (e.g., a house) as part of their income. Students should also distinguish between monetary policies to curb inflation and fiscal policies to stimulate spending.

**Economics Content Note:** Some students may correctly point out that Social Security benefits are indexed to inflation and, as a result, rising prices should not be a concern for the elderly. Coach students to see that Social Security is only part of retired people's income. They also rely on pensions, which are usually fixed in their dollar amount, and on assets that have been accumulated throughout their work life (e.g., their house). Students should be able to distinguish between monetary policies to curb inflation and fiscal policies to stimulate spending.

**Optional:** You and/or your students may wish to add items from the letter to the Know/Need-to-Know List at this point.

## 13. Provide Clarifying Lesson #3 on *monetary policy tools*.

*For information to include in this lesson see "Economics Review" in the **Teacher Materials**.*

Note to students that this lesson will help answer their questions on the "Need to Know" list about what the government can do to help ease the economic crisis.

This lesson can be provided to students using a combination of mini-lectures, activities, and reading selections from a textbook and other print and online resources, some of which may be assigned as homework.

**Economics Content Note:** This lesson is designed to provide students with a comprehensive overview of monetary policy tools. Students should understand the tools the Federal Reserve can use to expand the economy or to contract it. The lesson should also introduce students to the main role of monetary policy: to stabilize the money supply.

**14. Students individually write second Project Log entry, answering the following question:**

***How can monetary policy be used to help people represented by the Silver Panthers of America?***

Project Log entries do not have to be long, but they do need to be completed for Project Based Learning to be most effective. They may be assigned either as in-class tasks or as homework.

**15. Review individual Project Log entries to assess understanding of economic concepts.**

*For tips on reviewing Project Logs, see “Use Formative Assessments” in Chapter Two discussion of **Teaching Strategies for Project Based Economics**.*

**Economics Content Note:** Be sure students show they understand how monetary policy might be used to curb inflation or to stimulate the economy. If students forget to distinguish between cost-push and demand-pull inflation when discussing monetary policy, coach them to remember the cause of price increases in the project scenario—rising oil costs. Remind them that monetary policies that curb demand-pull inflation are not necessarily effective when inflation is caused by cost-push factors. If you notice that students do not understand these concepts, you may need to further clarify them by talking with the whole class, individuals, or small groups.

**16. Students receive letter from William M. Jorgenson, CEO of the Henry J. Car Corporation, and discuss it as a whole class.**

*The letter from William M. Jorgenson may be found in the **Student Materials**.*

Read this letter aloud as a class, then discuss what aspect of the economic crisis the CEO is focused on and why—and what he wants the President to do.



**Economics Content Note**

This lesson

provides students with a comprehensive overview of monetary policy tools, including the Federal Reserve’s tools for expanding or contracting the economy, and that the main role of monetary policy is to stabilize the money supply.



**Economics Content Note**

If students forget

to distinguish between cost-push and demand-pull inflation, remind them that rising oil costs are what are causing the price increases, and that monetary policies to curb demand-pull inflation don’t necessarily work against cost-push factors.

### Economics Content Note



Focus students on both business's desire for cheap labor and capital, and the demand for their products. Unemployed workers could result in cheaper labor as well as lower demand. Students must weigh these potential tradeoffs when considering supply-side policies.

**Synopsis of letter from William M. Jorgenson:** CEO Jorgenson advocates for a supply-side solution to the crisis. He reminds the President that rising costs of production have led to higher prices for automobiles, fewer sales, and lower profit levels. He warns that the continued support of corporate leaders depends on the President finding solutions that meet the needs of business.

**Economics Content Note:** Coach students to focus on the challenges of business (e.g., they want cheap labor and capital) and the demand for their product. The latter, which students have more difficulty seeing, is important to acknowledge because business will only operate with a demand for their product. Hence, unemployed workers could result in both cheaper labor for production and a lower demand for cars because of consumers' inability to pay for the goods. *Students should weigh the benefits of each of these potential tradeoffs and think seriously about what type of supply-side policies would most benefit firms given the scenario of the project.*

**Optional:** You and/or your students may wish to add items from the letter to the Know/Need-to-Know List at this point.

### 17. Students individually write third Project Log entry, answering the following questions:

***How might corporate leaders, unemployed workers, and retired people respond differently to the government's use of demand-side policies? How might each group respond differently to supply-side policies?***

Project Log entries do not have to be long, but they do need to be completed for Project Based Learning to be most effective. They may be assigned either as in-class tasks or as homework.

### 18. Review individual Project Log entries to assess understanding of economic concepts.

*For tips on reviewing Project Logs, see "Use Formative Assessments" in Chapter Two discussion of **Teaching Strategies for Project Based Economics**.*

**Economics Content Note:** Students should see that, for example, the Silver Panthers of America and unemployed workers might want demand-side policies such as transfer payments, but the CEO will argue that transfer payments create work (and/or investment) disincentives. Unemployed workers want demand-side policies that stimulate employment, perhaps through government jobs, but the CEO wants the lower wages that result from high unemployment and believes that government employment (and spending) hurts business by competing for the best workers (or monies).

### Economics Content Note



The retired and the unemployed might want demand-side policies, but the CEO will argue that these are disincentives to work and/or investment. Taken as a group, the letters illustrate the tradeoffs and opportunity costs involved in developing policy.

Taken as a group, all letters illustrate the tradeoffs and opportunity costs involved in developing policies that might help to solve the economic crisis. If you notice that students do not understand these concepts, you may need to further clarify them by talking with the whole class, individuals, or small groups.

### 19. Students work on policy recommendation (in small groups).

Students should now be given some time—approximately one whole class period—to begin to develop their policy recommendations. They should work in the same small groups that wrote the memo earlier comparing the current crisis to economic indicators in the past. Since this is the first lengthy period of time they have been given in class to discuss possible solutions to the problem, coach students to hold off on doing any planning for their presentation and visuals yet. Suggest they focus only on fiscal and monetary policy options at this point.

**Economics Content Note:** Be sure to remind students, if necessary, that the current crisis is caused by the reduction in oil supply, which increased the price of oil. The increased price of oil not only inflates prices, it also creates unemployment as layoffs occur. The increased prices reduce the consumer's ability to purchase goods and services. A failure to see the cost-push cause of the crisis will divert students from appropriate economic policy solutions. Also, students must distinguish between the demand-side and supply-side emphasis for policy solutions. They should learn that within each emphasis, there is the potential to use monetary and fiscal policy tools.

### 20. Students receive memo from Chief of Staff, and discuss it as a whole class.

*The memo from the Chief of Staff may be found in the Student Materials.*

Read this final memo aloud as a whole class. Make sure students clearly understand what is expected of them in terms of the format and content of the presentation.

### 21. Students finalize the Know/Need-to-Know List with you (whole-class discussion).

The additional information gained from the memo from the Chief of Staff does not have to be added to the final know list, since this would basically be a “copying” task. However, students may wish to add more items to the know list that they have thought about in terms of the content or the scenario, or move items over from the Need-to-Know List, so allow them a final opportunity to do so.



#### **Economics Content Note**

The current crisis is caused by oil price increases, which creates unemployment and reduces consumers' purchasing ability for goods and services. The failure to see the cost-push cause of the crisis will divert students from appropriate solutions. Also, within both demand- and supply-side policy solutions, there is the potential to use monetary and fiscal policy tools.



Revisit the Need-to-Know List for the last time and make sure students are ready to solve the problem by answering any remaining questions or directing students toward the necessary resources

## **22. Students finalize the Driving Question with you (whole-class discussion).**

Students should write the final version of their Driving Question at this point. The final Driving Question should resemble:

***How can we, as the Special Task Force of the President's Council of Economic Advisors, develop and present recommendations for dealing with the economic crisis using fiscal and monetary policy so that we meet the needs of a variety of constituents and not increase the national debt?***

## **23. Share supplied rubric with students to guide their work.**

*A rubric for the oral presentation and written summary may be found in "Assessment Tools" in the **Teacher Materials**.*

Give a copy of the rubric to each student, or display it on an overhead or computer projector so every student can read it. Discuss the rubric with students to be sure they understand that they will be assessed primarily on their knowledge of economics. Their oral presentation and writing skills, while important, are given less weight on the rubric. If you are altering the rubric's point scheme to conform to your own grading system, be sure to maintain the emphasis on knowledge of economics.

## **Presentation, assessment, and debrief**

## **24. Students work on policy recommendation and plan presentation (in small groups).**

Now it is time for students, in their groups, to synthesize all they have learned and develop their ideas for how the President could address the economic crisis. Allow a substantial amount of time for this step—two or three class periods may be required—and some homework also may be needed. Listen, observe, and actively coach students as you circulate among groups in the classroom. Remind students to use the rubric to guide their work

**Economics Content Note:** Students' policies must be grounded in the parameters of the project scenario: cost-push inflation with rapidly rising oil prices, high levels of both unemployment and inflation, and slowing economic growth. Furthermore, because the solutions the students propose cannot increase national debt, they must discuss how they will increase

### **Economics Content Note**



Students' policies must be grounded in the project scenario: cost-push inflation with rapidly rising oil prices, high unemployment, and slowing economic growth; policies must not increase the debt.

government spending or reduce taxes, or subsidize research without incurring more debt.

Visuals may be produced on chart/poster paper, overhead transparencies, or as PowerPoint slides. Students may choose to create any kind of graphs, charts, lists, or other displays that they think will add to their oral presentation.

A draft of the written summary and the presentation visuals should be checked by you before the presentation, to comment on their quality and correct errors. If time does not allow for the summaries to be reviewed outside of class time, be sure to spend time with each group while they work during the days before the presentation.

**Potential Hurdle:** Students may want to suggest that the U.S. government invest in a massive research and development effort to produce alternative fuels and energy sources. This would be an acceptable use of fiscal policy, but be sure this does not become their primary solution to the problem, which is solving the *current* economic crisis. Other fiscal and monetary policy tools should be emphasized as more immediately effective steps.



**Potential Hurdle**

While students may want to suggest that the government invest in a massive R&D program for alternative energy, remind them that the problem deals with the *current* crisis.

## 25. Students present policy recommendations and turn in written summaries (in small groups).

*For more guidance on managing the presentations, see Chapter Two discussion of **Teaching Strategies for Project Based Economics**.*

Make sure students have their visual aides ready and remind them about the strict 5–8 minute time limit.

Each group makes its presentation to a panel composed of the President (usually you) and the representatives from the Silver Panthers, the Campaign for Job Security, and the Henry J. Car Corporation. The President acts as moderator and has the responsibility for bringing the overall economic emphasis to the discussion, including the issue of not raising the national debt. The President also keeps an eye on overall costs and benefits, including the political effects of the task force's recommendations on various constituencies. If possible, invite guests from outside the classroom to play the roles of the constituency representatives, since this motivates students to do a good job. If this is not possible, you as the teacher will have to wear several hats and switch roles for various questions.

After the presentation, allow from three to five additional minutes for panel members to question students about their policies.



**Potential Hurdle**

While presentations may require a second class period, it is best that students not see other presentations before they make theirs. Limit panel members to three questions each, and keep them focused on economic concepts by using the provided scripts.



*Panel Member Questions may be found in “Assessment Tools” in the **Teacher Materials**.*

**Potential Hurdle:** These presentations require careful management. Depending on the size of the class and number of groups, a second day for presentations may be necessary. In this *PBE* unit in particular, it is best if students do not see each other’s presentations before they make theirs, or unfair advantage and plagiarism could result.

Panel members should be limited to three questions each to allow enough time for as many presentations as possible in one class period. To keep the panel members from straying from economic concepts, scripts for their character are provided in the **Teacher Materials**. The President/teacher’s questions should help students see any potential contradictions in their policy.

**26. Use supplied rubric to assess presentations and written summaries.**

*The rubric for the presentations and written summaries may be found in “Assessment Tools” in the **Teacher Materials**.*

As you hear and see the students’ presentations and read their written summaries, use the rubric to help you note any areas of weakness that reveal incomplete or incorrect understanding of key economic concepts. Clarify these during the debrief to follow.

**27. Conduct a debrief to clarify and consolidate students’ understanding of key economic concepts.**

It is critical that the debrief phase of the project not be ignored. This is the time when students, as a whole class, reflect on and receive feedback on both the economic content of the project and the process of solving the problem presented in the scenario. The debrief is in two stages; the first focuses on economics content, and the second focuses on the process of learning in PBL.

Begin the content-focused part of the debrief by discussing how the project helped students better understand economics. The discussion could be guided by questions such as:

- After listening to other students’ solutions to the problem presented in the scenario, is there anything that you think you left out or would have done differently?
- What new ideas or economic concepts did you learn in this project?
- What economic concepts do you still not understand?

The economics content-focused debrief is a vital opportunity for clarifying any remaining conceptual misunderstandings evident in student work, or correcting inaccurate statements made during presentations.

**Economics Content Note:** It is important for students to see that any policy they develop will have underlying tradeoffs and opportunity costs—that is, policies designed to help one group will often hurt another group. Because politicians often disguise these opportunity costs in their speeches, students are often reluctant to propose or acknowledge that tradeoffs exist. The debriefing should help students see that, because resources are scarce, helping one group often means hurting another.

Care should also be taken to ensure that students understand the differing goals of each type of policy: monetary and fiscal, demand-side and supply-side. Economists who argue for supply-side policies place relatively more importance on business activity while economists who argue for demand-side policies place more emphasis on demand in households.

## 28. Manage student reflection on the 21st-century skills practiced and the process of learning in PBL.

Students should have a chance to discuss the process of learning in PBL, and to reflect on their use of 21st-century skills such as critical thinking, collaboration, and presentation. This part of the debrief could be done with a series of questions, for example:

- Did you find it to be difficult when there are several possible “right answers” to the Driving Question? Why?
- How does it feel to go through some parts of the project without specific directions, to make some of your own decisions?
- How much do you think you learned in terms of skills like working as a team and making a presentation?

Finally, ask students for feedback on how the project was structured, with questions such as:

- Did you need more resources to help you solve the problem—more lecture time, more readings, more time on the computer?
- Did you need more help in learning how to work together in your group?
- Did you have enough time for each step of the unit?
- Are there any suggestions you would make for improving how the unit is taught?



### **Economics Content Note**

Students should understand that any policy they develop will have tradeoff and opportunity costs. They should also see the differing goals of the types of policies (monetary and fiscal, demand- and supply-side).

**29. Use supplied multiple-choice test to assess individual students' knowledge of key economic concepts.**

*The multiple-choice test for this unit may be found in "Assessment Tools" in the **Teacher Materials**.*

**30. Make notes on adjustments to the unit to improve student learning for the next time the unit is taught.**

Teachers inevitably recognize how to make *The President's Dilemma* more effective after they have taught it. We encourage you to note these thoughts quickly, so you can review your ideas for improvement the next time you teach the unit.

**Teaching Tips**

Before a *Project Based Economics* unit is published, it is taught numerous times by experienced high school economics teachers. We include their advice below.

- This unit provides a great opportunity to discuss current economic events. Current levels of inflation and unemployment can be easily woven into a benchmark lesson and used as a comparison to the economic crisis presented in this problem. Budget deficits and public (national) debt (and their components) can also be discussed so that students can see how and what current programs must be sacrificed in order to reduce deficits.
- In this unit, students have a tendency to offer political solutions to the problem instead of economic solutions. Accordingly, try to minimize the amount of political material and information provided to students. Also try to avoid using real politicians or political parties as examples, which could lead students to develop what they think is a "Democratic" or "Republican" response to the problem.
- While it seems obvious to many teachers that this problem has origins in the 1970s OPEC-induced shortages, students often miss this connection. It is best not to point out the historic parallels until the debriefing because students may simply adopt the policies that were undertaken at the time and not reason through the economic problems in adopting and devising policy.

## Economics Review

### *Monetary Policy*

The Federal Reserve (the “Fed”) regulates and manages the money supply in accordance with the levels of output (and employment) and prices. It has three tools at its disposal to alter the money supply:

1. **Open market operations:** The Fed buys and sells government securities to commercial banks and to the general public. The buying of bonds increases the money supply by putting dollars into circulation, and the selling of bonds decreases money supply by removing dollars from circulation. *This is the primary tool used by the Fed to alter money supply.*
2. **Reserve ratio:** This is the mandated percentage of deposits that banks are required to keep. If the Fed increases the reserve ratio, it reduces the money supply by increasing the amount of cash that a bank has to keep in its vault (required reserves). By increasing the required reserves for banks, the Fed decreases the amount of the banks’ excess reserves and, hence, decreases the amount of money that banks have to loan. If the Fed reduces the reserve ratio, it increases money supply by decreasing the amount of required reserves and, hence, increasing the amount of excess reserves and loanable funds.
3. **Discount rate:** This is the interest rate that the Fed charges on money loaned to commercial banks. Many short-term interest rates are tied to the discount rate. If the Fed increases the discount rate, it decreases money supply (through the money multiplier) by decreasing borrowing (increased interest rates). If the Fed decreases the discount rate, it increases the money supply (through the money multiplier) by stimulating borrowing (decreased interest rates). Because banks typically do not borrow much money from the Fed and because success of this monetary policy depends upon the actions of borrowers, *altering the discount rate to change money supply is not used often. Instead, altering the discount rate is often used to send a signal to financial markets as to the type of monetary policy the Fed is undertaking.*

### **Easy (Expansionary) Monetary Policy**

Policies to increase the money supply are used when growth in the economy is “too slow.” That is, the economy is faced with unemployment and deflation. To increase the money supply the Fed would:

- buy securities
- reduce reserve ratio
- lower discount rate

↑ Money supply → ↓ interest → ↑ investment → ↑ GDP

An expansionary monetary policy is effective when the economy is sluggish (falling GDP). It stimulates investment, which ultimately expands firm production and employment. If it is invoked when the economy is overheated (rapidly expanding GDP and inflation) then an expansionary monetary policy further fuels inflation. If prices are rising due to cost-push factors and the economy is sluggish, as in our problem, then increasing money supply to expand the economy may have little impact on price levels.

### Tight (Contractionary) Monetary Policy

Policies to decrease the money supply are used when growth in the economy is “too fast.” That is, the economy is faced with cost-push inflation created by labor shortages. To decrease the money supply the Fed would:

- sell securities
- increase reserve ratio
- raise discount rate

↓ Money supply → ↑ interest → ↓ investment → ↓ GDP

A contractionary monetary policy is effective when the economy is overheated (rapidly increasing GDP and inflation). It is used to decrease investment and slow economic expansion. If invoked when the economy is sluggish (declining GDP and high levels of unemployment), then a contractionary monetary policy further deepens the recession. If prices are rising because of cost-push factors—and not because the economy is overheating—tight monetary policies may have little impact on slowing inflation.

Thus, contracting the money supply as a solution for our problem would, in theory, decrease GDP, increase unemployment, and have little impact on prices.

## Fiscal Policy

Advocates of fiscal policy believe that the government’s decisions about spending and taxing can influence the equilibrium of the nation’s GDP. More specifically, a fundamental function of the government’s *spending and taxing* policy is to stabilize the economy. This stabilization is achieved in part through the manipulation of the public budget—government spending and tax collections—for the expressed purpose of increasing output and employment or reducing the rate of inflation.

In addition to its role in stabilizing the economy, the federal government is also concerned with the *provision of public goods and services and the redistribution of income*. In this regard, the specific types of spending and taxing policies used for stabilization are important. For example, the government could

engage in an expansionary policy by increasing the dollars going toward education, by serving as employer of last resort for low-skilled, unemployed workers, or by decreasing income taxes for the wealthy. While all of these scenarios might have the same expansionary impact on the economy as a whole, they would have very different distributional impacts. One policy helps the middle class (the primary recipients of public education), one helps the poor (low-skilled and unemployed), and one helps the wealthy (tax breaks).

Fiscal policy can be targeted toward either the supply or demand side of the economy. Supply-side policies include all policies targeted toward production in the business sector (e.g., changing incentives for investment). Demand-side policies include all policies targeted toward spending by consumers (e.g., altering employment opportunities or taxes on consumption).

### **Easy (Expansionary) Fiscal Policy**

Increasing government spending or decreasing taxes is used when growth in the economy is “too slow.” That is, the economy is faced with a recession, high levels of unemployment, and slow growth in GDP. Expansionary fiscal policy includes:

- increased government spending
- lower taxes
- a combination of the two

If the budget is balanced, an expansionary fiscal policy will increase the deficit as government spending is increased. Critics of fiscal policy measures argue that this expansion by the government “crowds out” expansion of private firms by competing for investment funds used to finance spending.

Assuming that crowding out effects are minimal, expansionary fiscal policy is effective when the economy needs stimulation. It stimulates spending (of consumers or firms), which in turn stimulates production and reduces unemployment. If it is undertaken when (demand-pull) inflationary pressures are present or when the economy is at full employment, it will overheat the economy and create (increased rates of) inflation. If prices are rising because of (non-labor) cost-push factors and the economy is sluggish (as in our problem), expansionary fiscal policies can expand the economy with little impact on price levels.

### **Tight (Contractionary) Fiscal Policy**

Decreasing government spending or increasing taxes is used when growth in the economy is overheated. That is, contractionary policies are most effective when the economy faces excess demand for workers (by firms) or for goods

(by consumers). These pressures underlie inflationary pressures and GDP growth that is “too rapid.” Contractionary fiscal policy includes:

- decreased government spending
- increased taxes
- a combination of the two

If the budget is balanced at the outset, a contractionary fiscal policy would move the government toward a budget surplus. This surplus slows economic growth and production. Contractionary fiscal policy is effective when the economy contains (demand-side) inflationary pressures. By decreasing spending (of consumers or firms), production is slowed and the demand for workers decreases. If it is undertaken when the economy is in a recession, it will further reduce economic growth and exacerbate unemployment. If prices are rising because of (non-labor) cost-push factors and the economy is sluggish (as in our problem), contractionary fiscal policies will increase sluggishness of the economy and will have little impact on price levels.



## Concept Definitions

*The curriculum is designed to teach the following concepts:*

**Budget deficit:** A situation where the flow of expenditures exceeds the flow of income for the federal government. A deficit occurs when taxes on income and expenditures are insufficient to meet the payments for goods and services and interest on the national debt. Contrast with *national debt*.

**Consumer Price Index (CPI):** A measure of the average price of a fixed “market basket” of consumer goods and services that are commonly bought by households. This statistic is computed monthly by the Bureau of Labor Statistics.

**Contractionary policy:** A decrease in aggregate demand or supply that is brought about by a decrease in government spending, an increase in taxes, or a combination of the two (fiscal policy) or a decrease in money supply (monetary policy). Contractionary policies are used when the economy is overheating.

**Cost-push inflation** arises with sustained increases in the cost of production that cause the price of the product to increase

**“Crowding out”:** When the federal government borrows money, the associated rise in interest rates decreases planned investment spending by private firms and individuals. As a result, government expenditures are said to “crowd out” those by private firms.

**Demand:** Purchases of a good or service that people are actually able and willing to make, given prices and choices available to them. The **“law of demand”** states that there is a negative (or inverse) relationship between price and quantity demanded. That is, as price increases (decreases) the amount of a good purchased decreases (increases). Consumers’ demand is determined by their tastes, income, and price of other goods. The **demand schedule** is a table showing the quantities of a good that will be purchased at various prices. The **demand curve** is a curve that relates the price of a product and the quantity of the product that individuals are able and willing to purchase. **Aggregate demand** is the total demand for goods and services in the economy by households (for consumer goods), by firms and government (for investment goods), and by other countries (exports).

**Demand-push inflation** arises when aggregate demand exceeds aggregate supply and consumers bid up prices



**Demand-side theories:** Views that emphasize increasing aggregate demand as a means of maintaining economic stability in the economy. Should the economy be at the downturn of the business cycle, demand-side theorists believe that aggregate demand should be stimulated through expansionary policies. Should the economy be overheating, demand-side theorists believe that aggregate demand should be slowed through contractionary policies.

**Discount rate:** The rate of interest at which the Federal Reserve lends to the banking system. Short-term interest rates are geared to the discount rate through the banking system. If the capital market thinks that changes in the rate are likely to last for some time, long-term rates will also change.

**Economic indicators:** Statistics about the economy that allow analysis of current economic performance and predictions of future performance

**Expansionary policy:** An increase in aggregate demand or supply brought about by an increase in government spending, a decrease in taxes, or a combination of the two (fiscal policy) or an increase in money supply (monetary policy). Expansionary policies are used when the economy needs to be stimulated.

**Federal Reserve System:** The central banking system in the United States. The system consists of 12 regional banks and branches under control of the Federal Reserve Board. Although the Governors of the Board are appointed by the President of the United States, the financial capital of the reserve banks is owned by the member banks, making the “Fed” an independent agency. The Board effectively acts as a central bank and approves the discount rate and reserve ratio, and generally regulates the operation of the banking system. The Federal Open Market Committee, a subcommittee of the Board, effectively has the power to influence money supply through open market operations.

**Fiscal policy:** An attempt to attain certain economic goals, such as achieving full employment and increasing Gross Domestic Product (GDP), by varying the government’s purchases of goods and services and its rate of taxation. The spending authorization and rates of taxation are established by Congress.

**Government spending:** Payments for goods, services, and interest made by the government. Fiscal policy includes the amount spent for goods and services by the federal government. The multiplier effect associated with government spending results from spending by any level of government.

**Gross Domestic Product (GDP):** The dollar value of all final goods and services produced by resources located in the country during a year

**Inflation:** An upward movement in the average level of prices. The result is diminished purchasing power of a given sum of money. Inflation is contrasted with **deflation**, which is a downward movement in the average level of prices. **Demand-push inflation** arises when aggregate demand exceeds aggregate supply and consumers bid up prices. **Cost-push inflation** arises with sustained increases in the cost of production that cause the price of the product to increase.

**Interest rates:** The price of loanable funds, which is usually expressed as annual percentage and measures the yearly cost of borrowing. The price paid per dollar borrowed per period of time. **Nominal interest rates:** The interest rate taken at its face value (that is, the interest rate expressed in current dollars and not adjusted for inflation). **Real interest rates:** The actual return to capital. Because comparing nominal interest rates includes a purely monetary component, the value of the rate must be purged of changes in prices to be compared over time. The rate obtained after eliminating the element of price change is the real interest rate.

**Monetary policy:** An attempt to attain certain economic goals, such as lowering the rate of unemployment or inflation. This can be done by varying the money supply, interest, and (in some cases) conditions of credit. The Board of Governors of the Federal Reserve establishes the policies.

**Multiplier:** The recipients of income will save a portion and spend a portion of it. Of the portion spent, the income generated to the next recipient will be partially saved and partially spent. The result of this continued pattern is that the total increase in aggregate income will, in the end, be several times larger than the increase in the initial income received (that is, it will be some multiple of the increase in initial income). The expression that gives the value of this multiple is the multiplier.

**National debt:** The total amount of money owed by the federal government to the owners of government securities. It is equal to the sum of the past budget deficits (less budget surpluses). Contrast with *budget deficit*.

**Open market operations:** The buying and selling of federal government securities by the Federal Reserve banks

**Opportunity costs:** The real sacrifice involved in achieving something. The value of the next best opportunity that is foregone in order to achieve a particular thing.

**Reserve requirements:** The proportion of deposits that a bank or other depository institution is legally required to hold in cash reserve. The proportion is set by the Federal Reserve as a monetary policy tool.

**Scarcity:** A condition where less of something exists than people would like if the good had no cost. Scarcity arises because resources are limited and cannot accommodate all of our unlimited wants.

**Supply:** The amount of a good or service that firms are prepared to sell at a given price. The firm determines how much of a good to supply using its marginal cost curve. **Industry supply** is the summation of all individual firms' marginal cost curves (in a constant cost industry). The **supply schedule** is a table showing the amount of a product that will be produced at a given price. The **supply curve** relates the quantity of a good supplied by a firm (or market) and each price. The **law of supply** dictates that the curve is upsloping, indicating that more will be produced as the price of the good increases. **Aggregate supply** is the total amount of goods and services available for consumption and consists of both domestically produced goods and services and imports.

**Supply-side theories:** Views that emphasize increasing aggregate supply as a means of maintaining economic stability. Should the economy be at the downturn of the business cycle, supply-side theorists believe that aggregate supply should be stimulated through expansionary policies. Should the economy be overheating, supply-side theorists believe that aggregate supply should be slowed through contractionary policies.

**Tax:** A compulsory transfer of money from individuals, institutions, or groups to the government. The tax may be based on either wealth or income or as a surcharge to prices. Taxation is one of the key elements in fiscal policy and a primary means by which a government finances its expenditures.

**Tradeoff:** An exchange relationship denoting how much of one good (or resource) is needed to get another good (or resource).

**Unemployment rate:** The number of people able and willing to work expressed as a percentage of the labor force. Labor force includes working individuals and unemployed individuals but does not include individuals who do not wish to work (e.g., retirees).

## Assessment Tools

### Questions From Panel Members

#### **Joe Brezinski—The average, middle-class American who has recently become unemployed**

*Background: In contrast to monetarists and supply-siders who want to stimulate economic growth by helping business, Joe focuses on policies that have a direct impact on employment. Therefore Joe advocates policies such as unemployment insurance, government-created training programs and employment opportunities, and business incentives for firms to hire American workers. Joe believes that the wealth of corporations does not necessarily filter down to the middle class but merely increases the wealth of those who are already wealthy.*

Points to be made:

1. Wouldn't easing interest rates to allow firms to borrow more just line the pockets of wealthy corporate executives by increasing their profits? I've lost my job and they are pocketing excess profits. They already make millions a year from the labor of people like me. Why do they need more money?
2. Why not give tax breaks to the middle class? We will spend the money and create additional jobs in the process. This will help keep working Americans employed.
3. Why not help out the unemployed with government programs to help us survive—for example increasing unemployment compensation and providing job search/training/education programs? This will not only give us some money during tough times, but also will help us find new jobs.
4. If taxes are cut for business so that employment opportunities can be created from economic growth, what guarantee do we have that the jobs will be in the United States and that business will not merely expand employment overseas?
5. What about helping unemployed people with government-created jobs? For example, much of the infrastructure of this country—roads, bridges, levees, etc.—needs to be repaired or upgraded.

## Assessment Tools

### Questions from Panel Members

#### **Angela Soracco—The Silver Panthers of America president who wants to maintain the purchasing power of elderly people's assets**

*Background: Living on a fixed income from pension plans and assets (e.g., equity in a house), the people represented by the Silver Panthers live in fear of high rates of inflation, which decreases their spending power. Because the income from pensions (for example) does not increase as rapidly as prices, their monthly income does not go as far when prices are rapidly rising. As the value of assets erodes, the equity in their house is not enough for them to sell their home and buy/rent another house as the price of new housing escalates with increased prices. Finally, most retired people rely on Social Security benefits, which are indexed to inflation, as a primary source of steady income and lobby heavily for the government to maintain these benefits.*

Points to be made:

1. Wouldn't easing interest and borrowing rates for firms just grease the pockets of wealthy corporate executives by increasing their profits? I've worked hard all of my life and it's not fair to see the businesses pocketing excess profits. They already make millions a year and simply pocket the money and not spend it. I need money to live on and my spending will stimulate the economy and create jobs for local merchants.
2. Aren't rising prices the major concern in our country? It's getting so that we can't afford to buy food at the grocery store or proper health care. Also, young people won't be able to afford the American dream of owning their own home if we don't contain price increases.
3. You can't cut our Social Security benefits. We worked hard all those years and contributed to Social Security instead of saving money for retirement in a bank. It's unfair to cut the benefits to which we are entitled.
4. Why should the government undertake long-term solutions to the economic crisis? Keynes said, "In the long run we are all dead," and many of us (the unemployed and elderly poor) will not survive unless short-term solutions are undertaken.
5. We must maintain the Social Security system. Maybe young people don't want to pay for their elderly relatives, but we paid for our parents' generation (note: Social Security is a pay-as-you go system) and the children of today's young people will take care of them. That's how it's structured.

## Assessment Tools

### Questions from Panel Members

#### **William M. Jorgenson —CEO of Henry J. Car Corporation— who wants to stimulate economic growth by investing in business**

*Background: As a representative of corporate America, Mr. Jorgenson wants economic growth stimulated through the growth of business. This means that, in response to Keynesians who advocate policies that increase aggregate demand through increasing the spending capabilities of Americans, he believes that “what’s good for Henry J. Car is good for the USA.” By investing in business, the government is ensuring long-run economic growth. This growth will “trickle down” to the average worker because, as business expands, employment will increase and, as business invests, wages will increase because workers will become more productive.*

Points to be made:

1. Wouldn't providing people with alternatives to work—e.g., unemployment compensation, government-guaranteed jobs, prolonged education—create a society of individuals who “live off of the government” instead of individuals who work? By allowing the market to function without interference (e.g., work disincentives), business will provide workers with jobs and our country will continue to grow and prosper.
2. Shouldn't the government create investment incentives like reducing the capital gains tax so that individuals increasingly invest in business? Shouldn't the government induce firms to invest in capital with policies like reducing the corporate income tax and easing restrictions on borrowing? In this way, business will prosper and grow and provide jobs for workers.
3. Why should government spending be increased and/or why should the government be responsible for employment? If there were a demand for services provided by government, the private sector would supply it.
4. What good is an increase in government borrowing (to increase spending) as an expansionary policy? Such borrowing will have no benefit because it will simply crowd out investment and expansion of private sector firms by increasing interest rates.
5. Shouldn't the government provide tax breaks to corporations to help stimulate production? Tax breaks would allow us to hire more workers and stimulate economic growth.

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**Rubrics**

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We have provided a rubric for each major product or performance required in this unit. All rubrics may be used as written, or adapted by the teacher to fit particular needs. Rubrics serve two major purposes. First, they provide guidance to students, describing the characteristics of good quality work—and because of this, rubrics should be shared with students while they are preparing how to demonstrate what they have learned. Second, rubrics provide teachers and others with a framework for assessment and feedback.

We have divided our rubrics into three levels of quality. If teachers wish to express these levels on a numeric point scale, we suggest that “Exceeds Standards” equals a 4 or 5, “Meets Standards” equals a 3, and “Does Not Meet Standards” equals a 1 or 2. We intentionally did not include a scoring system based on percentages or letter grades, since evaluation and reporting methods vary greatly among teachers. However, we have suggested what we believe to be the proper weight given to each category, with the emphasis on the application of content knowledge.

The rubrics for each unit do not include extensive detail about the qualities of a good oral presentation, or of good writing and other products such as electronic media. Rubrics for writing and other media products may be found in various print resources and websites, or developed by teachers, schools, and districts.



## The President's Dilemma: Rubric for Group Oral Presentation on Economic Policy

Component and the Recommended Value	Exceeds Standards (score 4–5)	Meets Standards (score 3)	Does Not Meet Standards (score 1–2)
<b>Understanding of the Problem</b> (10%) <b>Key Aspects:</b> <ul style="list-style-type: none"> <li>The economic problem facing the nation</li> <li>The fiscal and monetary policy tools available to the President</li> </ul>	<p>Describes the problem clearly, accurately and completely in terms of all key aspects</p> <p>Solution to the problem is completely consistent with the scenario as presented; the parameters of the problem have not been altered and/or facts “made up” to avoid grappling with key aspects of economics</p>	<p>Describes the problem clearly and accurately, in terms of most key aspects</p> <p>Solution to the problem is generally consistent with the scenario as presented; the parameters of the problem have not been altered significantly and/or facts “made up” to avoid grappling with key aspects of economics</p>	<p>Does not describe the problem clearly and accurately, or omits most or all key aspects</p> <p>Solution to the problem is not consistent with the scenario as presented; the parameters of the problem may have been altered and/or facts “made up” to avoid grappling with key aspects of economics</p>
<b>Understanding of Economics</b> (60%) <b>Key Points:</b> <ul style="list-style-type: none"> <li>Definition and understanding of the economic problems of unemployment and inflation</li> <li>The fiscal and monetary policy alternatives</li> <li>Definition and potential effects of demand-side and supply-side strategies</li> <li>The final policy option selected and justification of that selection</li> <li>Why the economic benefits outweigh the costs of the selected policy</li> <li>Impact of solution on the federal budget</li> </ul>	<p>All key points are clearly, accurately and completely discussed using sound economic thinking and vocabulary</p>	<p>All key points are clearly and accurately discussed while attempting to use accurate economic thinking and vocabulary</p>	<p>The information in the presentation is unclear and/or economic thinking may be incorrect. Any or all key points may be missing or inaccurately discussed</p>



**The President's Dilemma: Rubric for Group Oral Presentation on Economic Policy** *continued*

Component and the Recommended Value	Exceeds Standards (score 4–5)	Meets Standards (score 3)	Does Not Meet Standards (score 1–2)
<b>Defense of Presentation (Q &amp; A)</b> (10%)	<p>All members of the group are able to directly answer questions and persuasively justify their decisions in terms of economics</p> <p>Answers to questions use correct, detailed economic thinking and terminology and make powerful, articulate points in defense of the group's proposal</p> <p>The drawbacks of the plan are acknowledged and directed to the panel members who may be negatively affected by it</p>	<p>Most members of the group are able to answer questions and justify their decisions in terms of economics</p> <p>Answers to questions use correct economic thinking and terminology and make clear points in defense of the group's proposal</p> <p>An attempt is made to acknowledge the drawbacks of the plan to the panel members who may be negatively affected by it</p>	<p>Only one or no member of the group is able to correctly answer questions or justify decisions in terms of economics</p> <p>Answers to questions use incorrect economic thinking and terminology and/or include inconsistent or confusing points</p> <p>No attempt is made to justify the drawbacks of the plan to the panel members who may be negatively affected by it</p>
<b>Visuals Aids for Presentation</b> (10%)	<p>Answers to questions may bring new, relevant information to light; answers do not simply repeat the same information over again</p> <p>No information used in an answer is assumed or fictionalized; if necessary, an answer may be, "I don't know" and the need for further study is acknowledged</p> <p>Visual aids use accurate information and enhance the presentation by addressing key economic concepts</p> <p>Layout, color, design elements, headings, and text are carefully done and professional-looking; all information is clearly readable and understandable</p>	<p>Answers to questions may bring new, relevant information to light; some answers may simply repeat the same information over again</p> <p>No significant information used in an answer is assumed or fictionalized</p> <p>Visual aids use accurate information and support the presentation by addressing key economic concepts</p> <p>Layout, color, graphic elements, headings, and text show some care was taken; significant information is for the most part clearly readable and understandable</p>	<p>Answers to questions do not bring new information to light and answers simply repeat the same information over again</p> <p>Some significant information used in an answer may be assumed or fictionalized</p> <p>Visual aids have incorrect information and/or distract from the presentation, and/or do not address key economic concepts</p> <p>Layout, color, graphic elements, headings, and text show little evidence that care was taken; significant information is unclear or not understandable</p>

***The President's Dilemma: Rubric for Group Oral Presentation on Economic Policy*** *continued*

<b>Component and the Recommended Value</b>	<b>Exceeds Standards</b> (score 4–5)	<b>Meets Standards</b> (score 3)	<b>Does Not Meet Standards</b> (score 1–2)
<b>Oral Presentation Skills</b> (10%)	<p>Stays within the 5–8 minute time limit and is not redundant, wordy, nor too brief in any aspect</p> <p>All group members participate substantively and roughly equally</p> <p>Presentation is clearly organized and flows well with effective transitions; it is not rushed or drawn-out</p> <p>Presentation is professional in style; it features appropriate dress, posture and gestures; a clear, strong, expressive voice; frequent eye contact; awareness of the audience</p>	<p>Stays within the 5–8 minute time limit; may be a bit too brief or too lengthy in some aspects; may be somewhat wordy or repetitive</p> <p>All group members participate substantively</p> <p>Presentation is organized; some parts may be somewhat unclear, too brief or too lengthy</p> <p>Presentation is mature in style and features appropriate dress, posture and gestures; a clear voice; some eye contact; some awareness of the audience</p>	<p>Does not fit within the 5–8 min. time limit</p> <p>Only one group member participates substantively</p> <p>Presentation lacks organization</p> <p>Presentation style is unprofessional and/or immature; does not feature appropriate dress, posture and gestures; a clear, strong, expressive voice; frequent eye contact; awareness of the audience</p>

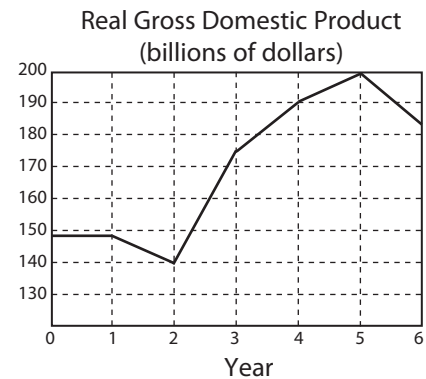
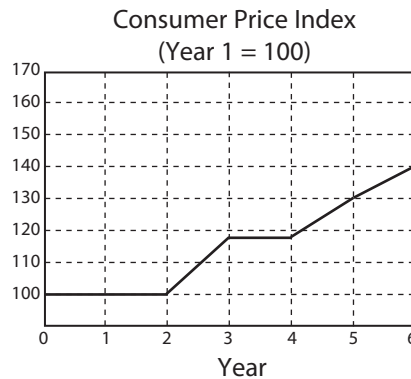
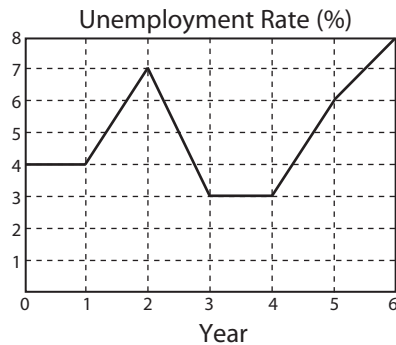
## **Test for *The President's Dilemma***

### **Answer Key**

1. Consumer spending is most likely to fall when:  
  - ☒ (A) unemployment increases
  - B the population increases
  - C interest rates drop
  - D taxes are reduced
2. Over a ten-year period, the purchasing power of a typical family has risen faster than inflation. This implies:  
  - A prices have risen faster than demand
  - B taxes have increased more than prices
  - C both prices and wages have increased
  - ☒ (D) wages have increased more than prices
3. The major purpose of calculating GDP is to:  
  - ☒ (A) measure the level of economic activity
  - B prevent instability or changes in the CPI
  - C improve the standard of living
  - D measure transfer payments
4. The Federal Reserve system plays an important role in:  
  - A setting fiscal policy
  - ☒ (B) setting monetary policy
  - C calculating the federal debt
  - D deciding tax rates
5. Which of the following indicates a healthy economy?  
  - A unemployment and inflation are high
  - B unemployment is high and inflation is low
  - C unemployment is low and inflation is high
  - ☒ (D) unemployment and inflation are low
6. Which of the following might increase business activity during a recession?  
  - A increasing interest rates
  - B increasing reserve requirements
  - ☒ (C) decreasing rates of taxation
  - D decreasing government spending for public goods and services
7. Supply-side economists believe that:  
  - A an increase in aggregate demand will lead to decreased output and employment
  - B an increase in taxes will increase aggregate demand
  - ☒ (C) tax cuts and reduced government regulations will lead to increased output and employment
  - D large deficits and high interest rates are good for the economy

8. The Federal Reserve exercises monetary policy when it:  
  - ☒ (A) influences the money supply
  - B supervises loan approvals by banks
  - C regulates currency distribution
  - D determines which banks can operate
9. Monetary policy affects economic activity by influencing:  
  - ☒ (A) the size of the money supply
  - B the amount of income that goes into savings rather than consumption
  - C the size of the federal budget deficit
  - D tax rates
10. An increase in the average monthly income of a worker will:  
  - A reduce government revenues
  - B increase business capital investment
  - C reduce the money supply in an economy
  - ☒ (D) increase consumption for normal goods
11. If your annual money income rises by 50% while prices of the things you buy rise by 100%, then your:  
  - A real income has risen
  - ☒ (B) real income has fallen
  - C money income has fallen
  - D money income is not affected
12. In times of recession, demand-side economists would advocate:  
  - A helping corporations stimulate growth by cutting their taxes
  - B allow the economy to regulate itself
  - C decreasing transfer payments
  - ☒ (D) increasing government spending to stimulate the economy
13. Increased taxation is a preferred method of financing government spending when:  
  - A the interest rate is low
  - B the interest rate is high
  - ☒ (C) the economy is experiencing inflation
  - D the economy is experiencing a recession
14. Fiscal policy includes:  
  - A controlling production
  - B changing the money supply
  - ☒ (C) changing tax rates
  - D setting price controls
15. In *The President's Dilemma*, the problem faced by the nation is:  
  - ☒ (A) real wages are falling
  - B real wages are rising with inflation
  - C real wages are rising
  - D real wages are rising with GDP

**Economic Conditions in Parkland**



16. Parkland had both rising unemployment and a high rate of inflation during which period?
  - A years 1 to 2
  - B years 2 to 3
  - C years 3 to 4
  - ☒ D years 4 to 5
17. If you were President what would be the best year to run for reelection?
  - A beginning of year 5
  - B beginning of year 6
  - C beginning of year 2
  - ☒ D beginning of year 3
18. When commercial banks increase their loans this usually results in:
  - ☒ A an increase in the nation's money supply
  - B a decrease in the spending power of consumers and businesses
  - C an increase in the government's control over the economy
  - D an increase in national debt
19. Who is likely to be most harmed by inflation?
  - ☒ A retirees living on fixed pension payments
  - B union workers
  - C stockholders
  - D people who owe money
20. Elderly people, such as members of the Silver Panthers, are hit especially hard by inflation because:
  - ☒ A prices rise faster than income
  - B spending varies from year to year
  - C interest rates increase
  - D they transfer payments from bank to bank
21. An increase in aggregate demand could result from the government reducing:
  - A transfer payments
  - B federal budget deficits
  - ☒ C tax rates
  - D purchases of goods and services

22. The most important function of the Federal Reserve System is:  
  - A issuing currency
  - ☒ B controlling the money supply
  - C supervising commercial banks
  - D lending money to banks
23. A primary implication of Keynesian economics is that:  
  - A the best government is the least government
  - B flexible wages and prices ensure full employment
  - C monetary policy is far superior to fiscal policy
  - ☒ D business-cycle instability is best corrected through government policies
24. During periods of high unemployment, the preferred policy of Keynesian economics is:  
  - A expansionary monetary policy
  - ☒ B expansionary fiscal policy
  - C contractionary monetary policy
  - D let the business cycle self-correct
25. During periods of high unemployment, the preferred policy of supply-side economists is:  
  - ☒ A expansionary monetary policy
  - B expansionary fiscal policy
  - C contractionary monetary policy
  - D let the business cycle self-correct
26. In *The President's Dilemma*, inflation is caused by:  
  - A high rates of unemployment
  - B increasing numbers of retired citizens
  - ☒ C the increasing cost of oil
  - D the demands of unions
27. To decrease unemployment and increase future economic growth, monetary policy should:  
  - ☒ A lower discount rates, which would encourage business investment
  - B raise discount rates, which would encourage people to save and invest
  - C lower levels of personal savings to finance present consumption
  - D raise levels of personal savings to finance future consumption
28. In *The President's Dilemma*, the President will have the best chance of being reelected if:  
  - A inflation stays the same and GDP goes up
  - ☒ B inflation goes down and GDP goes up
  - C inflation goes down and GDP stays the same
  - D both inflation and GDP go up
29. If the Federal Reserve wants to slow down the economy, it will:  
  - A lower the reserve requirement
  - ☒ B raise the discount rate
  - C buy government securities
  - D refuse to clear checks

30. Which of the following is likely to increase business investment:
- ☒ A a decrease in interest rates
  - B an increase in taxes
  - C a decrease in consumer sales
  - D a decrease in government spending
31. If the price of oil suddenly increases, as it does in *The President's Dilemma*, what is likely to happen?
- A demand-pull inflation
  - ☒ B cost-push inflation
  - C demand-pull deflation
  - D cost-push deflation

# Memo From the President



## *Office of the President The White House Washington*

**TO:** Special Task Force of the Council of Economic Advisors  
**FROM:** President of the United States  
**RE:** Policy Recommendations for Current Economic Crisis

As you know, the recent oil supply shocks and the rapid rise in oil prices have produced an economic crisis. As a result, we are facing:

- High level of unemployment (12.5%) affecting all sectors of the economy—middle managers are now losing jobs at increasing rates and homelessness is rising rapidly in urban areas
- High rate of inflation (9% annually)—people are concerned about being able to afford basic necessities, while businesses are contracting
- Dramatic slowing of economic growth in the past two quarters—real GDP has dropped by 13%

I am hearing a great deal of criticism from all sides about how we're not dealing strongly enough with this—my approval ratings have plummeted. We need to develop an economic policy that will ease the crisis. I have therefore convened this special task force of the Council of Economic Advisors. Of course, any policy we develop cannot increase our already-too-high national debt.

Once you have developed your policy, prepare a presentation, using visuals, that explains and justifies your policy. A written summary of your presentation must be on my desk before you make it. You will deliver the presentation to me and a panel of representatives of different constituencies. We need to get feedback on whether or not voters will find the policy acceptable, a critical necessity if I am to have a hope of being reelected this year and you have a hope of keeping your politically appointed jobs. The panel will ask you questions and expect you to defend your plan. If this group accepts your recommendations, I will use your ideas as the basis for a speech to the nation the following week.

Some people are saying this could be the worst economic crisis the nation has ever confronted. Before you get started on your policy recommendation, send me a memo ASAP with your analysis of how our current unemployment, inflation, and economic growth compare to leading economic indicators in the past.



## National Statistics For Selected Years

	GDP		Change GDP		Discount rate	Consumer Price Index (1982–1984 = 100)	Rate of inflation	Unemployment rate	Public debt (nominal)
	Nominal	Real (2000 dollars)	Change (nominal)	Change (real)					
	billions	billions	percent	percent	percent	percent	percent	% of civilian labor force	billions
1929	103.6	865.2	-	-	5.17	17.10	0.00	3.20	16.9
1933	56.4	635.5	-4.0	-1.3	2.50	13.00	-5.10	24.90	22.5
1939	92.2	950.7	7.0	8.1	1.00	13.90	-1.40	17.20	40.4
1940	101.4	1034.1	10.0	8.8	1.00	14.00	0.70	14.60	42.9
1942	161.9	1435.4	27.7	18.5	0.88	16.30	10.90	4.70	72.4
1944	219.8	1806.5	10.7	8.1	0.50	17.60	1.70	1.20	201.0
1946	222.3	1589.4	-0.4	-11.0	0.88	19.50	8.30	3.90	269.4
1950	293.8	1777.3	9.9	8.7	1.60	24.10	1.30	5.30	257.3
1955	414.8	2212.8	9.0	7.1	1.92	26.80	-0.04	4.40	274.3
1960	526.4	2501.8	3.9	2.5	3.50	29.60	1.70	5.50	286.3
1965	719.1	3191.1	8.4	6.4	4.04	31.50	1.60	4.50	317.2
1970	1038.5	3771.9	5.5	0.2	5.94	38.80	5.70	4.90	370.9
1975	1638.3	4311.2	9.2	-0.2	6.21	53.80	9.10	8.50	533.1
1978	2294.7	5015.0	13.0	5.6	7.54	65.20	7.60	6.10	771.5
1980	2789.5	5161.7	8.8	-0.2	11.75	82.40	13.50	7.10	907.7
1985	4220.3	6053.7	7.3	4.1	7.67	107.60	3.60	7.20	1823.1
1990	5803.1	7112.5	5.8	1.9	6.96	130.70	5.40	5.60	3233.3
1995	7397.7	8031.7	4.6	2.5	5.21	152.40	2.80	5.60	4973.9
2000	9817.0	9817.0	5.9	3.7	5.73	172.20	3.40	4.00	5674.1
2005	12,455.8	11,048.6	6.3	3.2	4.19	195.30	3.40	5.10	7932.7
2006	13,246.6	11,415.3	6.3	3.3	5.96	201.60	2.00	4.60	8506.9

# Letters From Constituent Groups

## CAMPAIGN FOR JOB SECURITY

*Keep America Employed!*

TO: The President of the United States

FROM: Maria Bautista, Policy Analyst,  
Campaign for Job Security

RE: Unemployment

The Campaign for Job Security (CJS), as you know, is a fast-growing workers' political action committee. Four months ago, CJS asked me to conduct a series of public forums and private meetings to determine the mood of workers across the nation, in light of the rising levels of unemployment among the middle class. After my conversations with citizens throughout our country, I think you should be most concerned about the growing sense of economic insecurity and despair among middle-class Americans. Unemployment is their major worry—either because they've lost their jobs or fear it's about to happen.

Currently, 52% of employed workers are concerned about losing their jobs. Because many of these workers are long-term employees of their firms or factories, their reemployment opportunities would not be good. America needs to keep them employed! Perhaps you should implement measures that increase the buying power of the middle class and that provide training for individuals that lose their jobs. The middle class needs support to maintain their lifestyle.

Thank you for inviting CJS representative Joe Brezinski to hear the presentation by your Task Force and voice the concerns of our organization. You should know that Joe has recently lost his job and is worried about losing his home. Be prepared, he is angry.



# SILVER PANTHERS OF AMERICA

TO: Office of the President  
The White House, Washington, D.C.

FROM: Angela Soracco  
President, Silver Panthers of America

RE: Eroding value of assets

We are quite concerned about rapidly increasing prices and their potential impact on the relatively fixed incomes of older Americans. Inflation is eroding the value of our assets such as our pensions and our homes. Our dollars can no longer stretch far enough to afford the basic necessities of living: rent, food, and health care. Increasingly, we are reliant upon our Social Security and any reduction in these payments will further limit our ability to buy basic necessities.

Most of us have worked hard all of our lives to create a nest egg so that we could enjoy the fruits of our labor in our old age. Perhaps it would be beneficial for you to speak to the chair of the Federal Reserve and remind him that rising prices are the most critical issue facing the nation during these difficult economic times.

After all, what kind of nation would neglect those who have dedicated their working lives to their country?

# Henry J. Car

Office of the CEO  
Henry J. Car Corporation

## MEMORANDUM

TO: President of the United States

FROM: William M. Jorgenson, CEO, Henry J. Car Corporation

RE: Current economic crisis

As per our discussion at the Corporate Leaders Forum held at Camp David last week, I want to remind you of my concerns regarding the current economic crisis and to reiterate how I think this crisis should be handled.

As you know, the rising cost of production associated with the increased price of oil has made it necessary for us to increase the prices of our automobiles. As a result, fewer cars are being sold and our profit has fallen. Clearly, businesses cannot survive in such an environment. The success of big business is reliant on a supply-side strategy to solve the crisis. I am not sure that you agree with this. However, the continued support of your administration by the Corporate Leaders Forum is dependent upon your following this strategy.

I appreciate your invitation to join the panel of constituent groups who will hear your economic task force present their recommendations.

Remember, the business of America is business.

# Memo From the Chief of Staff



## *Office of the Chief of Staff The White House Washington*

**TO:** Special Task Force of the Council of Economic Advisors  
**FROM:** Jesse Sloan, Chief of Staff  
**RE:** Details on your presentation on the economic crisis

The President asked me to send you the following parameters for your presentation:

- 1) You have a minimum of five and a maximum of eight minutes to speak, using your visual aids.
- 2) Your presentation has to demonstrate an understanding of the economic problem.
- 3) Your presentation must include the monetary and fiscal policy options you have considered.
- 4) You must explain the options you chose as your solution and the reasons why you chose them.
- 5) Please explain the economic costs of your solution and why the benefits outweigh the costs.
- 6) Be prepared for questions from the President and the following constituent group representatives:
  - Joe Brezinski, representing unemployed workers and the Campaign for Job Security
  - Angela Soracco from the Silver Panthers of America, representing retired people
  - William M. Jorgenson, CEO, Henry J. Car Corporation

Name: \_\_\_\_\_

Date: \_\_\_\_\_

## Test for *The President's Dilemma*

**Please circle the letter of your answer.**

1. Consumer spending is most likely to fall when:
  - A unemployment increases
  - B the population increases
  - C interest rates drop
  - D taxes are reduced
2. Over a ten-year period, the purchasing power of a typical family has risen faster than inflation. This implies:
  - A prices have risen faster than demand
  - B taxes have increased more than prices
  - C both prices and wages have increased
  - D wages have increased more than prices
3. The major purpose of calculating GDP is to:
  - A measure the level of economic activity
  - B prevent instability or changes in the CPI
  - C improve the standard of living
  - D measure transfer payments
4. The Federal Reserve system plays an important role in:
  - A setting fiscal policy
  - B setting monetary policy
  - C calculating the federal debt
  - D deciding tax rates
5. Which of the following indicates a healthy economy?
  - A unemployment and inflation are high
  - B unemployment is high and inflation is low
  - C unemployment is low and inflation is high
  - D unemployment and inflation are low
6. Which of the following might increase business activity during a recession?
  - A increasing interest rates
  - B increasing reserve requirements
  - C decreasing rates of taxation
  - D decreasing government spending for public goods and services

7. Supply-side economists believe that:
  - A an increase in aggregate demand will lead to decreased output and employment
  - B an increase in taxes will increase aggregate demand
  - C tax cuts and reduced government regulations will lead to increased output and employment
  - D large deficits and high interest rates are good for the economy
8. The Federal Reserve exercises monetary policy when it:
  - A influences the money supply
  - B supervises loan approvals by banks
  - C regulates currency distribution
  - D determines which banks can operate
9. Monetary policy affects economic activity by influencing:
  - A the size of the money supply
  - B the amount of income that goes into savings rather than consumption
  - C the size of the federal budget deficit
  - D tax rates
10. An increase in the average monthly income of a worker will:
  - A reduce government revenues
  - B increase business capital investment
  - C reduce the money supply in an economy
  - D increase consumption for normal goods
11. If your annual money income rises by 50% while prices of the things you buy rise by 100%, then your:
  - A real income has risen
  - B real income has fallen
  - C money income has fallen
  - D money income is not affected
12. In times of recession, demand-side economists would advocate:
  - A helping corporations stimulate growth by cutting their taxes
  - B allow the economy to regulate itself
  - C decreasing transfer payments
  - D increasing government spending to stimulate the economy
13. Increased taxation is a preferred method of financing government spending when:
  - A the interest rate is low
  - B the interest rate is high
  - C the economy is experiencing inflation
  - D the economy is experiencing a recession

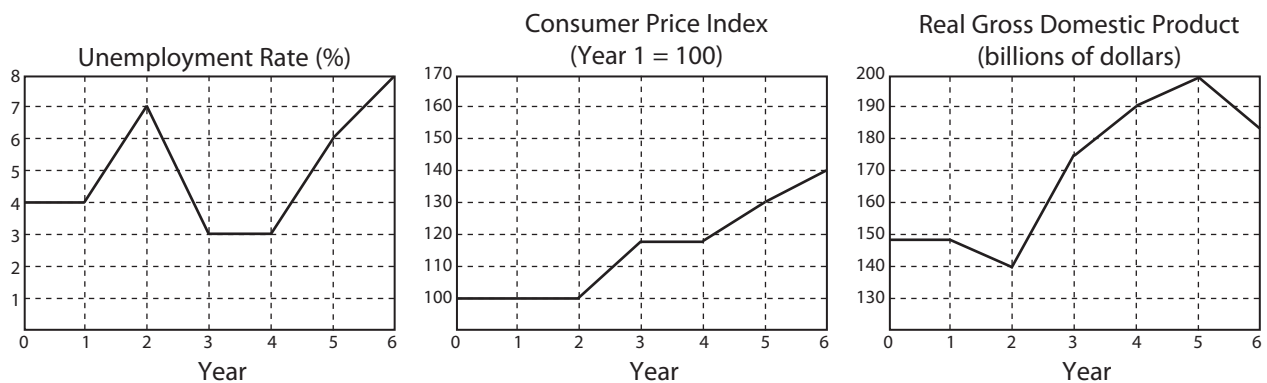
14. Fiscal policy includes:

- A controlling production
- B changing the money supply
- C changing tax rates
- D setting price controls

15. In *The President's Dilemma* the problem faced by the nation is:

- A real wages are falling
- B real wages are rising with inflation
- C real wages are rising
- D real wages are rising with GDP

### Economic Conditions in Parkland



16. Parkland had both rising unemployment and a high rate of inflation during which period?

- A years 1 to 2
- B years 2 to 3
- C years 3 to 4
- D years 4 to 5

17. If you were President what would be the best year to run for reelection?

- A beginning of year 5
- B beginning of year 6
- C beginning of year 2
- D beginning of year 3

18. When commercial banks increase their loans this usually results in:

- A an increase in the nation's money supply
- B a decrease in the spending power of consumers and businesses
- C an increase in the government's control over the economy
- D an increase in national debt



19. Who is likely to be most harmed by inflation?
  - A retirees living on fixed pension payments
  - B union workers
  - C stockholders
  - D people who owe money
20. Elderly people, such as members of the Silver Panthers, are hit especially hard by inflation because:
  - A prices rise faster than income
  - B spending varies from year to year
  - C interest rates increase
  - D they transfer payments from bank to bank
21. An increase in aggregate demand could result from the government reducing:
  - A transfer payments
  - B federal budget deficits
  - C tax rates
  - D purchases of goods and services
22. The most important function of the Federal Reserve System is:
  - A issuing currency
  - B controlling the money supply
  - C supervising commercial banks
  - D lending money to banks
23. A primary implication of Keynesian economics is that:
  - A the best government is the least government
  - B flexible wages and prices ensure full employment
  - C monetary policy is far superior to fiscal policy
  - D business-cycle instability is best corrected through government policies
24. During periods of high unemployment, the preferred policy of Keynesian economics is:
  - A expansionary monetary policy
  - B expansionary fiscal policy
  - C contractionary monetary policy
  - D let the business cycle self-correct
25. During periods of high unemployment, the preferred policy of supply-side economists is:
  - A expansionary monetary policy
  - B expansionary fiscal policy
  - C contractionary monetary policy
  - D let the business cycle self-correct

26. In *The President's Dilemma*, inflation is caused by:

- A high rates of unemployment
- B increasing numbers of retired citizens
- C the increasing cost of oil
- D the demands of unions

27. To decrease unemployment and increase future economic growth, monetary policy should:

- A lower discount rates, which would encourage business investment
- B raise discount rates, which would encourage people to save and invest
- C lower levels of personal savings to finance present consumption
- D raise levels of personal savings to finance future consumption

28. In *The President's Dilemma*, the President will have the best chance of being reelected if:

- A inflation stays the same and GDP goes up
- B inflation goes down and GDP goes up
- C inflation goes down and GDP stays the same
- D both inflation and GDP go up

29. If the Federal Reserve wants to slow down the economy, it will:

- A lower the reserve requirement
- B raise the discount rate
- C buy government securities
- D refuse to clear checks

30. Which of the following is likely to increase business investment:

- A a decrease in interest rates
- B an increase in taxes
- C a decrease in consumer sales
- D a decrease in government spending

31. If the price of oil suddenly increases, as it does in *The President's Dilemma*, what is likely to happen?

- A demand-pull inflation
- B cost-push inflation
- C demand-pull deflation
- D cost-push deflation

# Teacher Feedback Form

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# Release Form for Photographic Images

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To help illustrate to others the experiential activities involved and to promote the use of simulations, we like to get photographs and videos of classes participating in the simulation. Please send photos of students actively engaged so we can publish them in our promotional material. Be aware that we can only use images of students for whom a release form has been submitted.

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Name of student: \_\_\_\_\_ (print)

Age of student: \_\_\_\_\_ (print)

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Signature: \_\_\_\_\_ Date: \_\_\_\_\_

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