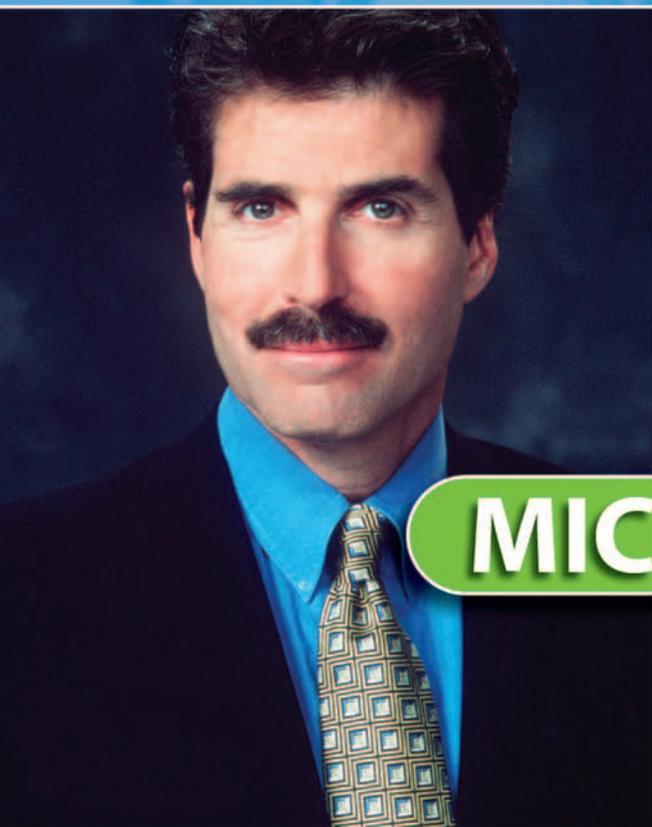




*presents*



*Teaching Tools for*

**MICROECONOMICS**

*from*

**John Stossel**

**Instructor's Manual to Accompany**  
Teaching Tools for  
**MICROECONOMICS**  
from  
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## **How to Use the Video Clips Effectively**

This manual provides teachers with materials that will help them use the Stossel video clips more effectively in their classroom. The manual contains the following for each clip:

- (1) a list of the various concepts illustrated by the clip,
- (2) video description,
- (3) preview question,
- (4) discussion and analysis questions,
- (5) multiple-choice assessment questions, and
- (6) a related activity or exercise.

Many instructors will want to use the preview question to introduce the clip and focus students on the major topic it covers. The preview questions often encourage students to share their views prior to viewing the video. After the video is shown, the discussion and analysis questions provide suggested focal points for additional classroom discussion. Like the multiple-choice questions, the analysis questions may also be used to assess student understanding of the topics covered in the video clip. Finally, the related activity or exercise can be used to re-enforce the content of the clip. In some cases, this material will also be appropriate for use as a homework assignment. We believe that these video clips, along with selected use of materials from this manual, will help instructors enrich their classes and bring economic concepts more alive for students.

# Clip 1: Opportunity costs, trade-offs, and secondary effects

DVD Clip: Costs and Benefits of Government Regulation

Length: 4:48

## Concepts Illustrated:

*Incentives*

*Marginal analysis*

*Secondary effects*

*Trade-offs*

*Risk assessment*

## Description:

The segment illustrates marginal thinking by weighing the marginal benefits of an action against the marginal costs. Ralph Nader proposes spending \$1,800 on each school bus to increase the safety of children and suggests the money would be well spent. John Graham of the Harvard Center for Risk Analysis calls this “statistical murder” to spend \$1,800 on seat belts to save a few lives instead of spending it on other forms of child safety that would save more lives.

The segment transitions to proposed legislation to mandate child safety seats on airplanes as a way to analyze trade-offs and think of secondary effects. The purpose of the legislation and the direct effect would be to increase safety for those children flying on an airplane. However, if the legislation passed, parents would have to pay for another seat for their child. This would make flying more expensive which would cause some to drive instead of fly. This secondary effect would expose children to greater risk since driving is more dangerous (in terms of accidents and fatalities).

## Preview Question:

“How should we think about reducing risks and saving lives? Should all risks be eliminated?”

*(Instructors may also want to ask students how much should be spent trying to save lives and whether they take risks when driving, playing games, and choosing how to live their lives.)*

## Discussion and Analysis Questions:

1. Why do individuals take risks? Why don't we eliminate all risky behavior?
2. Dr. John Graham suggests that it would be statistical murder for the government to require seat belts on school buses. What does Graham mean by statistical murder?
3. What are secondary effects? What aspect of this clip most clearly illustrates the concept of secondary effects? Why is it important to take these effects into account?
4. Would the proposed legislation requiring that all children traveling on commercial airlines be seated in a child safety seat reduce the number of fatalities in airline accidents? Would it save the lives of children? Why or why not?
5. “Economics is about trade-offs. If already scarce resources are used to reduce risk, fewer will be available to produce other things that we value.” Is this statement true or false? Explain your answer.

## Multiple-Choice Questions:

1. In economics, secondary effects refer to the
  - a. value of the goods that an individual must give up as the result of choosing an alternative.
  - \* b. indirect effects that often result from an action or policy change.
  - c. immediate and visible intended consequences of an action or policy change.
  - d. value of a good derived by the consumer of the good.
2. What is the opportunity cost of spending millions of dollars to put seatbelts in school buses?
  - \* a. The additional lives that would be saved by using the funds to make it safer to get off school buses.
  - b. The additional lives that would be saved in insurance costs covering school bus crashes.
  - c. The cost of installing the seatbelts.
  - d. The cost of lawsuits regarding school bus crashes.
3. What would be the secondary effect of requiring that all infants ride in safety seats when they travel on airplanes?
  - a. Fewer infants would be killed in auto accidents.
  - \* b. More infants would be killed in auto accidents.
  - c. More parents with infants would travel on airplanes.
  - d. Fewer parents with infants would travel in cars.
4. "Mediocre economists often consider only the immediate direct effects of a change, whereas a good economist will also consider indirect effects that may only become observable over time." This statement most clearly emphasizes
  - a. the fallacy of composition.
  - b. economizing behavior.
  - \* c. the importance of secondary effects.
  - d. the fact that association is not causation.

## Extension Activity: How Could Raising the Speed Limit Result in Fewer Highway Fatalities?

Here is an economic brainteaser for your class. Pose the following problem: In 1995 the National Highway Traffic Safety Administration predicted that the repeal of the federally mandated 55 miles-per-hour speed limit would result in an additional 6,400 highway deaths each year. But in 1998 the National Highway Traffic Safety Administration announced that traffic deaths on U.S. highways actually declined from 41,817 in 1995 to 41,480. How could raising the speed limit result in fewer highway fatalities?

Give the students some hints to solve this brainteaser by asking them the following questions:

1. Getting to a destination faster is an incentive to most drivers. How might raising speed limits influence the types of roads drivers would use? (Increasing the speed limits on freeways would attract drivers to drive on freeways.)
2. What is the opportunity cost of driving on freeways? (Less driving on more dangerous secondary roads)
3. Which roads are safer, freeways or secondary roads? Why? (Freeways are safer because drivers are all headed in the same direction. The roads are wider and there are no stop signs or stop lights. Head-on crashes and other accidents are more likely to happen on secondary roads. Secondary roads are narrower and often have stop signs and stop lights.)
4. Why would more lives be saved by increasing the speed limits on freeways? (More drivers would shift from driving on more dangerous secondary roads to driving on safer freeways.)

## Opportunity costs, trade-offs, and secondary effects

### Multiple-Choice Questions:

1. In economics, secondary effects refer to the
  - a. value of the goods that an individual must give up as the result of choosing an alternative.
  - b. indirect effects that often result from an action or policy change.
  - c. immediate and visible intended consequences of an action or policy change.
  - d. value of a good derived by the consumer of the good.
  
2. What is the opportunity cost of spending millions of dollars to put seatbelts in school buses?
  - a. The additional lives that would be saved by using the funds to make it safer to get off school buses.
  - b. The additional lives that would be saved in insurance costs covering school bus crashes.
  - c. The cost of installing the seatbelts.
  - d. The cost of lawsuits regarding school bus crashes.
  
3. What would be the secondary effect of requiring that all infants ride in safety seats when they travel on airplanes?
  - a. Fewer infants would be killed in auto accidents.
  - b. More infants would be killed in auto accidents.
  - c. More parents with infants would travel on airplanes.
  - d. Fewer parents with infants would travel in cars.
  
4. "Mediocre economists often consider only the immediate direct effects of a change, whereas a good economist will also consider indirect effects that may only become observable over time." This statement most clearly emphasizes
  - a. the fallacy of composition.
  - b. economizing behavior.
  - c. the importance of secondary effects.
  - d. the fact that association is not causation.

## Clip 2: Economics of private property rights

DVD Clip: *Is Sharing Good?*

Length: 4:07

### Concepts Illustrated:

*Incentives*

*Property rights*

*Tragedy of the Commons*

*Private versus common property ownership*

### Description:

This segment addresses private and public (common) property rights and how they change the incentives of individuals to take care of things. The segment uses two examples to illustrate modern versions of the "Tragedy of the Commons." First, an experiment from a high school economics class about fishing illustrates how common property rights will lead to over-utilization of resources. Second, ownership of elephant hunting rights in Africa reinforces the concept: Countries where there is private ownership have tripled their elephant population while countries where there is common ownership have seen dramatic decreases in elephant population.

### Preview Question:

"What serves people better: private ownership or public ownership?"

*(Prior to showing the clips, instructors may want to poll student views on the preview question.)*

### Discussion and Analysis Questions:

1. What rights accompany private ownership of property? Can private owners do anything they want with their property?
2. Do private owners have an incentive to conserve resources like oil or trees for the future? Would a 65-year-old farmer have an incentive to plant a crop of Douglas fir trees that might not be ready for harvest until 50 years from now? Why or why not?
3. What is the Tragedy of the Commons, and why does it occur?

**Points to consider:** Any property that is commonly owned will more likely be abused. The term originated in England where there were common areas where people could graze their sheep. Soon over-grazing resulted and the grass died. If a sheep owner did not graze as many animals, the grass would die anyway because the other sheep owners would graze their sheep there. This is the same reason people took the candy. If they didn't, someone else would. In contrast, a person who owns property wants to preserve it for the future and not abuse it.

4. Why are there so few elephants and so many cows?

**Points to consider:** No one owns elephants, and their tusks are valuable. Therefore, people have an incentive to kill them before someone else does. People own cows, and they benefit if some cows are preserved for future sale. When elephants are owned and the owners benefit from them, they will act as protectors. This could be accomplished by allowing limited hunting or by having photo safaris.)

5. What is the difference between private ownership and common ownership of property? Which is most consistent with human nature?

## Multiple-Choice Questions:

1. Which of the following is a private owner prohibited from doing?
  - a. Selling the property to another person.
  - b. Erecting a fence designed to keep others from using the property.
  - c. Painting the property a color that others do not like.
  - \* d. Using the property in a manner that invades or infringes on the property of another.
  
2. Private ownership of property
  - \* a. provides owners with an incentive to maintain and conserve resources.
  - b. creates an incentive for owners to ignore the wishes of others.
  - c. causes the Tragedy of the Commons to occur.
  - d. leads to the overuse of resources.
  
3. Under a system of private property, could a 60-year-old owner of a tree farm benefit by planting and caring for a crop of Douglas firs, most of which will not be ready to cut for 50 years?
  - a. No, the farmer will be dead before the crop will be ready for harvest.
  - \* b. Yes, the farmer will benefit from increased valuation of the land as the trees grow and the harvest moves closer.
  - c. No, the value of the land will decline since the farmer is taking it out of production for the next 50 years.
  - d. Yes, but only if the project is subsidized by the government or private conservation groups.

## Extension Activity: A Property Rights Simulation

This is a variation of the simulation shown in the video. It should be conducted before the video is shown and then compared to the simulation in the video.

1. Round 1: Ask for about ten volunteers. Put several paper clips on the floor. Tell the students you will give them one piece of candy for each paper clip they give you in the first 30-second period. If they wait until the second 30-second period, you will give them two pieces of candy for each paper clip. Only paper clips left over from the first period will be available to be picked up during the second period. Say "Go" and see what happens.
2. In almost all cases, all the paper clips are picked up in the first 30-second period, and there is no second period. Give the students one piece of candy for each paper clip they have.
3. Round 2: Now put ten sheets of 8.5x11 paper on the floor. Put a few paper clips on each sheet. Tell each student which sheet of paper he or she owns. Tell them you are the police officer, and anyone who touches another person's paper clips will receive no candy. Otherwise, the rules are the same as in Round 1.
4. Begin Round 2. Most, if not all, students will wait until the second 30-second period. Perhaps a student who is into instant gratification will pick up a paper clip in the first period, but it is unlikely. Give the students two pieces of candy for each paper clip they have.
5. Ask: "Why was there a difference between Rounds 1 and 2?"
6. Ask: "How did assigning property rights change the players' incentives?" (The students controlled [owned] their paper clips in Round 2, so they could wait and get more value for them. It wasn't clear who owned the paper clips in Round 1, so the students grabbed them before anyone else could.)

## Economics of private property rights

### Multiple-Choice Questions:

1. Which of the following is a private owner prohibited from doing?
  - a. Selling the property to another person.
  - b. Erecting a fence designed to keep others from using the property.
  - c. Painting the property a color that others do not like.
  - d. Using the property in a manner that invades or infringes on the property of another.
  
2. Private ownership of property
  - a. provides owners with an incentive to maintain and conserve resources.
  - b. creates an incentive for owners to ignore the wishes of others.
  - c. causes the Tragedy of the Commons to occur.
  - d. leads to the overuse of resources.
  
3. Under a system of private property, could a 60-year-old owner of a tree farm benefit by planting and caring for a crop of Douglas firs, most of which will not be ready to cut for 50 years?
  - a. No, the farmer will be dead before the crop will be ready for harvest.
  - b. Yes, the farmer will benefit from increased valuation of the land as the trees grow and the harvest moves closer.
  - c. No, the value of the land will decline since the farmer is taking it out of production for the next 50 years.
  - d. Yes, but only if the project is subsidized by the government or private conservation groups.

## Clip 3: Exchange and wealth creation

DVD Clip: Greed

Length: 6:46

### Concepts Illustrated:

*Gains from trade*

*Wealth creation*

*Economic growth*

*Innovation and technological change*

### Description:

The segment begins with a description of the Vanderbilt mansion, the yacht and lavish parties of Imelda Marcos, the wife of the former dictator of the Philippines, and the shopping sprees of the Duvaliers, Haiti's former dictator (Baby Doc) and his wife. All three seem to be examples of greed. However, there is a difference with Vanderbilt: he couldn't use force to create his wealth. Philosopher David Kelley dispels the notion that the economic "pie" is fixed. In fact the "pie" continues to grow as the result of gains from trade and production of goods that people value more than the resources required for their production. By using Bill Gates, Cornelius Vanderbilt, and John Rockefeller as examples, John discusses how exchange and trade create wealth. With market allocation, wealth is created by innovative ideas and better products that people are willing to pay for.

### Preview Question:

**"If Bill Gates earns an additional billion dollars from the development of a new and better computer, does this mean that the rest of us have a billion dollars less?"**

*Poll the class as to whether they agree, disagree, or are uncertain about the answer. Have a few students give reasons for their opinion. Tell them that the class will come back to the question after the video.*

### Discussion and Analysis Questions:

1. Discuss the preview question. If Bill Gates has more money, do others have less? Is there any difference between the wealth acquired by Bill Gates and Cornelius Vanderbilt than that acquired by the Marcos and Duvalier families? Discuss.
2. How do the results of pursuing wealth differ under a market economy and a government command economy?

**Points to consider:** Under a competitive market economy, sellers cannot force people to buy their products. Therefore, they cannot benefit unless they serve others. Under a government command economy, the government can force people to give the government their wealth, and the dictator does not have to serve others. There is a big difference between the results brought about by Baby Doc Duvalier and Cornelius Vanderbilt.

3. If a business is making a profit, is it creating wealth? Do firms generating losses create wealth? Why or why not?
4. "Exchange is a zero-sum activity. If one person gains, others must lose an equal amount." Evaluate this statement.
5. "When property rights are well-defined and competition present, economic activities organized through markets will be based on agreement among the parties and resources will generally be channeled into projects that increase the wealth of the citizenry." Evaluate this statement.

## Multiple-Choice Questions:

1. Who gains in a voluntary trade?
  - a. The buyer only.
  - b. The seller only.
  - \* c. Both the buyer and the seller.
  - d. Both the buyer and the seller, but the seller usually gains more.
  
2. Does voluntary exchange create wealth (value)?
  - a. No, exchange does not expand output.
  - b. No, if one person gains, the other party must lose an equal amount.
  - c. Uncertain: it does when it results in the creation of additional goods and services; otherwise, it does not.
  - \* d. Yes, trade generally permits the trading partners to gain more of what they value; this is why they agree to the terms of the exchange.
  
3. When an entrepreneur like Bill Gates makes \$10 billion through creating and selling new products
  - a. there will be exactly \$10 billion less for other individuals in the economy.
  - \* b. wealth is created and the size of the economic pie enlarged.
  - c. there will be more than \$10 billion in losses to other workers who lose their jobs.
  - c. it is likely that the new products are not as good as other products that are available in the market.

## Extension Activity: What's in Your Bag?

The idea that both parties benefit from voluntary trade is one of the most important concepts in economics. Yet special interests and government constantly pass laws that limit trade and which many citizens obviously approve of. Here is a brief simulation that illustrates the gains from trade.

1. Give each student a bag of small items to trade. Items could be pencils, candy, library passes, and stickers. Put different items in different bags. Assure the students that they can keep anything in their bag. Have them rate the value of the items in their bag on a 1 to 10 scale. Add up the values of each bag to obtain the overall value of the bags.
  
2. Now tell the students that they can trade any or all of the contents of their bags with any other student. No one has to trade anything if they don't want to. Allow 5-10 minutes for the students to trade. When the trading period is over, have the students rate the value of the items in their bag on a 1 to 10 scale, add up the numbers, and determine the overall value of the bags. The value will increase; this is the gain from trade.
  
3. Debrief the simulation with questions such as these:
  - How many of you made trades?
  - How many of you were better off because you made a trade?
  - Were any of you unhappy with a trade? Why?
  - Did any of you not trade? Why not?
  - Why do people gain by trading?

For a more detailed version of this simulation, see "Why People Trade," *Economics in Action*, National Council on Economic Education, 2003.

## Exchange and wealth creation

### Multiple-Choice Questions:

1. Who gains in a voluntary trade?
  - a. The buyer only.
  - b. The seller only.
  - c. Both the buyer and the seller.
  - d. Both the buyer and the seller, but the seller usually gains more.
  
2. Does voluntary exchange create wealth (value)?
  - a. No, exchange does not expand output.
  - b. No, if one person gains, the other party must lose an equal amount.
  - c. Uncertain: it does when it results in the creation of additional goods and services; otherwise, it does not.
  - d. Yes, trade generally permits the trading partners to gain more of what they value; this is why they agree to the terms of the exchange.
  
3. When an entrepreneur like Bill Gates makes \$10 billion through creating and selling new products
  - a. there will be exactly \$10 billion less for other individuals in the economy.
  - b. wealth is created and the size of the economic pie enlarged.
  - c. there will be more than \$10 billion in losses to other workers who lose their jobs.
  - c. it is likely that the new products are not as good as other products that are available in the market.

## Clip 4: Invisible hand steak example

DVD Clip: *Why Steak Gets to New York*

Length: 3:29

### Concepts Illustrated:

*Incentives*

*Market coordination*

*Invisible hand*

### Description:

The segment illustrates market coordination and Adam Smith's "invisible hand" by tracing the people and steps involved in getting beef from Iowa to New York City. Many of the individuals responsible in some way are identified such as the rancher, meat packers, box makers, and truck drivers. As these people are interviewed and share their motivation to work, Smith's invisible hand is shown to be true today. Each producer is motivated by his or her self-interest to generate income. But the market process coordinates their individual actions and encourages them to do the things needed for the steak to arrive in New York.

### Preview Question:

"Does food get to us because farmers care about our welfare?"

Take a poll and ask the students whether this is true or false. Then come back to the question after they view the video.

### Discussion and Analysis Questions:

1. What motivates people to undertake activities that make it possible for you and me to have a nice steak dinner?
2. When you have a nice steak dinner at a local restaurant, literally thousands of people have engaged in actions that made your dinner possible. What coordinated their actions?
3. Is self-interest the same thing as greed?

**Points to consider:** In some ways they are the same, and in some ways they are not. Greed in itself is not a virtue. However, seeking greater benefits within the rules of a market economy brings about benefits for everyone. In a market economy you earn more by serving others. This is why beef gets to New York. Altruism is important in society, but it will not get much beef to New Yorkers.

4. How does the invisible hand principle indicate that personal self-interest will influence people to undertake actions that will help others? Is this important? Why or why not?
5. How can you explain that the quantities of milk, bananas, candy bars, television sets, notebook paper and thousands of other items available in your hometown are approximately equal to the quantities of these items that local consumers desire to purchase? What are the forces that underlie this balance? Is it a miracle?

### Multiple-Choice Questions:

1. The invisible hand principle indicates that when individuals are directed by prices determined in competitive markets, their actions will tend to promote the efficient use of resources
  - a. only if buyers and sellers really care, personally, about economic efficiency.
  - \* b. even when each market participant cares only about their own self-interest rather than about the overall efficiency of resource use.
  - c. even if business firms fail to produce goods efficiently.
  - d. if, and only if, businesses recognize their social obligation to keep costs low and use resources wisely.

2. Market prices generally promote social cooperation because they
  - \* a. clarify the options available to people and encourage individuals to help others in exchange for income.
  - b. encourage government officials to levy taxes to provide people with the necessities of life.
  - c. eliminate scarcity by allowing prices to rise.
  - d. reward only altruistic actions, whereby people seek to help others without the expectation of personal gain.

## Extension Activity: The Story of a Pencil

The amazing thing about a market is how prices coordinate complex tasks. In addition to the beef example, you can illustrate this by showing your students an ordinary pencil and asking them how many people put together this simple pencil. *I Pencil* was written by Leonard Read and popularized by Milton Friedman.

To make a pencil, trees must be cut and logs must be transported to sawmills by truck, train, or water. Ore must be mined and turned into steel to make saws, axes, and motors. The pencil must be manufactured by workers using tools, which must also be manufactured. The graphite used for the writing must be mined and transported to the location where the pencil is made. The brass to hold the eraser must be made, and the eraser must be made from a rubber-like product from a seed oil from Indonesia. The pencil then must be shipped and sold in stores. Thousands of people throughout the world have cooperated to make a pencil. No government gave orders to make the pencil. It was produced by people pursuing their self-interest and in the process helping others. It occurred because prices and market incentives directed self-interested individuals to undertake the activities required for the creation of the pencil. Adam Smith said that this “invisible hand” of the marketplace transformed self-interest into promoting the interest of “society.”

For Milton Friedman’s explanation of *I Pencil*, see Milton and Rose Friedman, *Free to Choose*, Harcourt, 1980, p. 11.

To teach a complete lesson using the original *I Pencil* by Leonard Read, see *Capstone: Exemplary Lessons for High School Economics*, National Council on Economic Education, 2003, Lesson 13.

## Invisible hand steak example

### Multiple-Choice Questions:

1. The invisible hand principle indicates that when individuals are directed by prices determined in competitive markets, their actions will tend to promote the efficient use of resources
  - a. only if buyers and sellers really care, personally, about economic efficiency.
  - b. even when each market participant cares only about their own self-interest rather than about the overall efficiency of resource use.
  - c. even if business firms fail to produce goods efficiently.
  - d. if, and only if, businesses recognize their social obligation to keep costs low and use resources wisely.
  
2. Market prices generally promote social cooperation because they
  - a. clarify the options available to people and encourage individuals to help others in exchange for income.
  - b. encourage government officials to levy taxes to provide people with the necessities of life.
  - c. eliminate scarcity by allowing prices to rise.
  - d. reward only altruistic actions, whereby people seek to help others without the expectation of personal gain.

## Clip 5: Rent control

Length : 5:04

### Concepts Illustrated:

*Price controls*

*Secondary effects*

*Political allocation*

### Description:

Rent control is intended to assist low-income families obtain adequate housing and is currently used by about 200 American cities. Using New York City as an example, the rent control program is found to help mostly high-income families by keeping their rent below market prices. The secondary effects are to decrease new housing in the market, increase prices for property not under rent control, and create an incentive for landlords to either let their buildings deteriorate or abandon their investment.

### Preview Question:

**“Is the price of rental housing too high and would rent controls help the poor obtain better housing?”**

*Ask the students for their opinion and have them give reasons for their view.*

### Discussion and Analysis Questions:

1. Will rent controls help make housing more affordable? Will they help make housing more available to the poor?
2. Use the demand and supply model to analyze what happens when rent controls are imposed. Will shortages of rental housing develop? Why or why not?
3. Who is helped and who is hurt by rent controls? Why might politicians find it attractive to impose rent controls?
4. How will rent controls influence the following:
  - a. the difficulty involved in finding a suitable rental housing unit.
  - b. the construction of new rental apartments.
  - c. the maintenance and upkeep of current rental apartments.
  - d. the incentive to convert apartments into condo units for sale.
5. What are “black markets”? Why might they be present in areas where rent controls are imposed?

### Multiple-Choice Questions:

1. When a price ceiling is imposed below the equilibrium price of a commodity, then
  - a. quantity supplied will be greater than quantity demanded for the good.
  - b. the problem of scarcity will be solved.
  - \* c. a shortage of the good will develop.
  - d. a surplus of the good will develop.

2. Which of the following will most likely result from rent controls that reduce monthly rental rates below market equilibrium?
- \* a. Shortages and black markets for rental housing will develop.
  - b. The quality of rental housing will improve.
  - c. The future supply of rental housing will increase rapidly.
  - d. Discrimination against minorities and persons with unconventional lifestyles will decline in the rental housing market.

### **Extension Activity: Graphing Price Ceilings**

A supply and demand graph will help some students better understand the impact of a price ceiling. Ask students to do the following:

- a. Draw a supply and demand graph for rental housing. Indicate the equilibrium price.
- b. Draw a line below the equilibrium price that indicates a price ceiling. The government will not allow the price to go above this price ceiling.
- c. How will the lower price influence the incentive of consumers to rent more apartments? How will the lower price influence the incentive of sellers to provide apartments? What will be the result of these two incentive factors?

For a more detailed discussion of price ceilings and floors, see *Capstone: Exemplary Lessons for High School Economics*, National Council on Economic Education, 2003, Lesson 14.

## Rent control

### Multiple-Choice Questions:

1. When a price ceiling is imposed below the equilibrium price of a commodity, then
  - a. quantity supplied will be greater than quantity demanded for the good.
  - b. the problem of scarcity will be solved.
  - c. a shortage of the good will develop.
  - d. a surplus of the good will develop.
  
2. Which of the following will most likely result from rent controls that reduce monthly rental rates below market equilibrium?
  - a. Shortages and black markets for rental housing will develop.
  - b. The quality of rental housing will improve.
  - c. The future supply of rental housing will increase rapidly.
  - d. Discrimination against minorities and persons with unconventional lifestyles will decline in the rental housing market.

## Clip 6: Pharmaceuticals price controls and availability

DVD Clip: Pharmaceutical Prices

Length: 6:29

### Concepts Illustrated:

*Incentives*

*Price ceilings*

*Price controls*

*Profits*

*Secondary effects*

### Description:

The clip illustrates the general impact of price controls. Protestors against U.S. pharmaceutical companies claim prices are too high and do not reflect the costs to bring the drug to market. The segment reveals that most drugs never make it to market but the companies incur large research and development costs which, if such research is going to continue, must be covered by revenues from the drugs that do make it to market. If price controls were implemented, research would diminish because the companies would not be able to fund as much development and fewer new drugs would be created.

### Preview Question:

“Are prescription drug prices too high? Who will benefit and who will be hurt if the government imposes lower prices on drugs?”

*(Entertain answers from the students, but do not give an opinion. You might take a poll and ask how many students think drug companies would be hurt and how many students think consumers would be hurt and how many students believe both drug companies and consumers would be hurt.)*

### Discussion and Analysis Questions:

1. Why do drug companies spend so much time and money developing new drugs? What risks do drug companies take in order to develop new drugs?
2. Who is hurt and who is helped by price controls on drugs?  
*(Suggested answer: Both consumers and drug companies are hurt. Fewer new drugs are developed so more people suffer from diseases. There is a negative impact on the quality of life. Some poor people may be helped.)*
3. Use the demand and supply model to illustrate what will happen in the market for pharmaceutical drugs **if price controls depress prices in this market.**
4. Once a pharmaceutical drug has been developed and approved, what price will the firm want to charge if it is trying to maximize its profits? Will this price be greater than the marginal cost of producing additional quantities of the drug? Does this mean that the manufacturer is profiteering or price gouging?
5. What is the difference between a price ceiling and a price floor?

### Multiple-Choice Questions:

1. Which of the following will occur if a price ceiling is placed on a good below its free market equilibrium price?
  - a. A surplus of the good will develop.
  - \* b. A shortage of the good will develop.
  - c. Sellers will have a greater incentive to innovate.
  - d. Consumers will have a greater incentive to conserve the good.

2. A law establishing a maximum legal price for a good or service is known as
  - a. an equilibrium price.
  - b. a price floor.
  - \* c. a price ceiling.
  - d. a price wall.

### **Extension Activity: How Price Ceilings Affect Incentives**

Prices send signals and provide incentives for buyers and sellers. When supply and demand change, market price changes which, in turn, changes incentives for buyers and sellers. Higher prices encourage production and discourage consumption. Lower prices stimulate consumption and discourage production. In an unregulated market, supply and demand result in a market price that incorporates a vast amount of information from buyers and sellers.

But what happens if government interferes with market prices as several people in the video advocate? Politicians are often tempted to reduce prices by creating price ceilings in order to please the voters.

Graphs can often help students understand price ceilings. Draw a supply and demand diagram for prescription drugs. Show the equilibrium price. Then insert a price ceiling below that equilibrium. Discuss the role of incentives with students. The lower price is an incentive for consumers to use more prescription drugs and an incentive for sellers to provide less. The result is a shortage of prescription drugs.

Now have the students answer the following questions.

1. Why will drug companies produce more pharmaceuticals at higher prices?
2. Why will consumers buy more pharmaceuticals at lower prices?
3. What happens to the price if a price ceiling (maximum legal price) is imposed?
4. Does a price ceiling create a surplus or a shortage? Why?
5. Does a price ceiling cause greater shortages in the short run or in the long run? Why?

## Pharmaceuticals price controls and availability

### Multiple-Choice Questions:

1. Which of the following will occur if a price ceiling is placed on a good below its free market equilibrium price?
  - a. A surplus of the good will develop.
  - b. A shortage of the good will develop.
  - c. Sellers will have a greater incentive to innovate.
  - d. Consumers will have a greater incentive to conserve the good.
  
2. A law establishing a maximum legal price for a good or service is known as
  - a. an equilibrium price.
  - b. a price floor.
  - c. a price ceiling.
  - d. a price wall.

## Clip 7: Subsidized flood insurance

Length: 6:01

### Concepts Illustrated:

*Incentives*

*Subsidies*

*Secondary effects*

### Description:

The segment outlines John's personal experience with oceanfront property and government subsidized flood insurance. The initial effect is that the insurance is cheaper to the homeowner. The interview with James Lee Witt, former director of FEMA, provides some of the rationale for government involvement in flood insurance.

Since the subsidy makes the insurance cheaper, the secondary effect is that more waterfront property is developed than would otherwise be the case. As the clip documents, construction has increased dramatically which is exactly what economic theory would predict.

### Preview Question:

"Since people suffer after floods, should the government provide flood insurance?"

### Discussion and Analysis Questions:

1. Why are private insurance companies unwilling to provide good rates to insure oceanfront properties?
2. If the owners of oceanfront property were unable to obtain insurance, would they be able to obtain a mortgage to buy oceanfront property?
3. The former Director of the Federal Emergency Management Agency (FEMA) argues that people will build houses and other structures in hurricane-prone areas even if the government does not provide them with highly subsidized flood insurance. Do you think this is true?
4. The auto insurance rates of persons who have been arrested for driving while intoxicated are extremely high. Often it is nearly impossible for such individuals to obtain the insurance. What would you expect to happen if the federal government provided low-cost insurance to drunk drivers?
5. How does a subsidy affect a market? What determines the distribution of the subsidy benefit between buyers and sellers? If the subsidy is granted to the buyers will they necessarily be the primary beneficiaries of the subsidy? Explain.

### Multiple-Choice Questions:

1. Why are private insurance companies unwilling to insure oceanfront properties?
  - a. The risk of losses is very high.
  - b. The risk of losses is very low.
  - c. Insurance companies face uncertain financial futures.
  - d. Insurance companies do not insure individual homes.

2. According to the economic way of thinking, if government did not provide low-cost national home insurance for owners of oceanfront properties,
  - a. many people would buy such properties.
  - b. some people would leave their properties, but many more would take their place.
  - \* c. most people would avoid such properties.
  - d. most people would move to the desert.
  
3. A subsidy is defined as
  - a. a payment that must be made to the government whenever a good or service is sold.
  - b. the number of trades that are eliminated from a market when a tax is imposed.
  - c. the difference between total revenue and total cost for a business firm.
  - \* d. a payment to either the buyer or seller of a good or service, usually on a per-unit basis, when a good or service is purchased.
  
4. In the supply and demand model, a subsidy granted to buyers is illustrated by
  - a. a downward shift in the demand curve, by the per-unit amount of the subsidy.
  - \* b. an upward shift in the demand curve, by the per-unit amount of the subsidy.
  - c. a downward shift in the supply curve, by the per-unit amount of the subsidy.
  - d. an upward shift in the supply curve, by the per-unit amount of the subsidy.

## Extension Activity: The Ethanol Mystery

Pose the following problem to your class: With today's higher fuel prices there has been a resurgence of interest in alternative fuels such as ethanol. Ethanol is a fuel distilled from corn that can be mixed with gasoline. At first, people hoped that ethanol would reduce the amount of gasoline that Americans use. To encourage the use of ethanol, the federal government provided a subsidy to fuel producers. A 1997 study by the General Accounting Office of the federal government found that the ethanol subsidy cost consumers billions of additional dollars and that the new fuel did little to improve the environment or to reduce imports of oil. In 2006, however, the state of Wisconsin passed a law requiring that all gasoline in the state be mixed with ethanol. Why would Wisconsin do that?

### Ask:

1. Who receives the ethanol subsidy? (Producers of ethanol)
2. Do you suppose that the subsidy is important to these producers? (Yes. Their livelihoods might depend on it.)
3. Who else might benefit from the ethanol subsidy? (Corn farmers)
4. How might ethanol producers and corn farmers influence state legislators in Wisconsin? (They might make donations to campaigns and provide other forms of legal support to legislators who support the expansion of ethanol use.)
5. Who is helped and who is hurt by the ethanol subsidy? (Ethanol producers and farmers are helped; they receive more income as a result of the subsidy. Consumers of gasoline, taxpayers, and the environment are harmed.)

## Subsidized flood insurance

### Multiple-Choice Questions:

1. Why are private insurance companies unwilling to insure oceanfront properties?
  - a. The risk of losses are is very low.
  - c. Insurance companies face uncertain financial futures.
  - d. Insurance companies do not insure individual homes.
  
2. According to the economic way of thinking, if government did not provide low-cost national home insurance for owners of oceanfront properties,
  - a. many people would buy such properties.
  - b. some people would leave their properties, but many more would take their place.
  - c. most people would avoid such properties.
  - d. most people would move to the desert.
  
3. A subsidy is defined as
  - a. a payment that must be made to the government whenever a good or service is sold.
  - b. the number of trades that are eliminated from a market when a tax is imposed.
  - c. the difference between total revenue and total cost for a business firm.
  - d. a payment to either the buyer or seller of a good or service, usually on a per-unit basis, when a good or service is purchased.
  
4. In the supply and demand model, a subsidy granted to buyers is illustrated by
  - a. a downward shift in the demand curve, by the per-unit amount of the subsidy.
  - b. an upward shift in the demand curve, by the per-unit amount of the subsidy.
  - c. a downward shift in the supply curve, by the per-unit amount of the subsidy.
  - d. an upward shift in the supply curve, by the per-unit amount of the subsidy.

## Clip 8: Politics, economics, and farm subsidies

DVD Clip: *Farm Subsidies*

Length: 4:45

### Concepts Illustrated:

*Subsidies*

*Political behavior*

### Description:

The main theme of the segment is farm subsidies. By using a cotton farm in California as a case study, the impact of a subsidy is revealed. The interviewed cotton farmers pose the question about what would happen to their acreage if their subsidy was removed and they stopped growing cotton. They argue that not only would they go out of business but so would other American farmers. The fallacy that subsidies keep American farmers in business is exposed by noting that most agricultural products are not subsidized and yet those farmers are still in business and consumers generally purchase as much as they desire.

### Preview Question:

**“Are farm subsidies necessary to make sure that Americans have an ample food supply?”**

### Discussion and Analysis Questions:

1. Are most agricultural products subsidized?
2. If it were not for the subsidies, would the producers of the subsidized agricultural products go out of business? Would some of them go out of business? If the subsidies were removed and less efficient farmers were allowed to go out of business, who would be hurt and who would be helped? Would this be good or bad for Americans?
3. (a) The agricultural subsidies usually take the form of fixing the price of products like wheat and cotton above the market level and the government agreeing to purchase the amounts that cannot be sold at the artificially high price. This structure has resulted in large surpluses of the products that the government has to purchase. Can you explain why?  
  
(b) The government responded to the surpluses by imposing limitations on the number of acres that farmers were allowed to plant. Use supply and demand analysis to illustrate the impact of the planting limitations in the markets for the subsidized products.  
  
(c) In order to sell at the high price fixed by the government, farmers had to own land with acreage for the subsidized crop. How would this program affect the price of land with such an acreage allotment?  
  
(d) Does the program make farming more profitable? Why or why not?

### Multiple-Choice Questions:

1. In a market economy, what usually happens when a business fails to earn a profit?
  - a. It remains in business.
  - \* b. It goes out of business.
  - c. It reorganizes as a government-supported organization.
  - d. It reorganizes as a nonprofit organization.

2. In the supply and demand model, a subsidy granted to sellers is illustrated by
  - a. a downward shift in the demand curve, by the per-unit amount of the subsidy.
  - b. an upward shift in the demand curve, by the per-unit amount of the subsidy.
  - \* c. a downward shift in the supply curve, by the per-unit amount of the subsidy.
  - d. an upward shift in the supply curve, by the per-unit amount of the subsidy.
3. If the federal government began granting a subsidy of 10 cents per apple to apple growers and as a result the price of apples to consumers falls by 8 cents,
  - \* a. the actual benefit of this subsidy goes mostly to consumers.
  - b. the actual benefit of this subsidy goes mostly to producers.
  - c. the actual benefit of this subsidy would be shared equally by producers and consumers.
  - d. nobody would benefit from the subsidy.

### **Extension Activity: Why Grow Rice in the Desert?**

Pose this problem to your class: We normally think of farmers as sensible people. Yet, even farmers can be hard to figure out sometimes. For example, many farmers in California grow large crops of rice, which requires a great deal of water, in the desert (the Sacramento Valley). Why would farmers grow rice in the desert?

1. Is the weather in California suitable for agriculture? (Yes. California is well-known for having favorable weather conditions good for growing many crops.)
2. Rice grows well in California, but growing rice requires a large amount of water. What might be an incentive to farmers to grow rice where water is scarce? (If rice farmers could obtain enough water at low prices, they could be encouraged to grow rice, a valuable cash crop.)

Explain that California rice farmers have negotiated an agreement with the U. S. government that permits them to purchase water at very low prices. Artificially low water prices act as subsidies to rice farmers. They grow rice in the desert because under these conditions it is profitable to do so. However, use of scarce water resources in this fashion is inefficient and harms the environment.

## Politics, economics, and farm subsidies

### Multiple-Choice Questions:

1. In a market economy, what usually happens when a business fails to earn a profit?
  - a. It remains in business.
  - b. It goes out of business.
  - c. It reorganizes as a government-supported organization.
  - d. It reorganizes as a nonprofit organization.
  
2. In the supply and demand model, a subsidy granted to sellers is illustrated by
  - a. a downward shift in the demand curve, by the per-unit amount of the subsidy.
  - b. an upward shift in the demand curve, by the per-unit amount of the subsidy.
  - c. a downward shift in the supply curve, by the per-unit amount of the subsidy.
  - d. an upward shift in the supply curve, by the per-unit amount of the subsidy.
  
3. If the federal government began granting a subsidy of 10 cents per apple to apple growers and as a result the price of apples to consumers falls by 8 cents,
  - a. the actual benefit of this subsidy goes mostly to consumers.
  - b. the actual benefit of this subsidy goes mostly to producers.
  - c. the actual benefit of this subsidy would be shared equally by producers and consumers.
  - d. nobody would benefit from the subsidy.

# Clip 9: Wal-Mart, competition, and cost control

Length: 4:54

## Concepts Illustrated:

**Competition**

**Costs**

## Description:

Wal-Mart is both loved and vilified. Critics suggest the company wrecks communities, discriminates against women, and underpays its workers. An interview with Paul Blank, hired by the Food and Commercial Workers Union to campaign against Wal-Mart, offers the critical view. Brink Lindsey of the Cato Institute offers the proponents' view. By lowering prices and effectively giving consumers a raise by saving them money, the company benefits people. New and successful companies in an industry are typically cast in a negative light. The segment documents earlier examples like Sears and A&P who were in situations similar to Wal-Mart.

## Preview Question:

**"Is Wal-Mart good or bad for America?"**

*Use this question to begin a discussion on Wal-Mart. Allow the students to take both positions, but press them for their reasoning. Do not take either side in the discussion.*

## Discussion and Analysis Questions:

1. Why do so many people buy from Wal-Mart? Does Wal-Mart take advantage of consumers?
2. Why do people work at Wal-Mart? Does Wal-Mart take advantage of its employees?
3. When Wal-Mart enters a community, local businesses often find it difficult to compete with it. Should Wal-Mart be kept out in order to protect the local businesses of the community? Who is hurt and who is helped when local governments impose regulations that prohibit the entry of Wal-Mart into a community?
4. Which businesses will find it difficult to compete with Wal-Mart? If competition drives some businesses out of the market, will this be good or bad for the U.S. economy?

## Multiple-Choice Questions:

1. The idea that business failure is a positive force for progress in a market economy is often summarized by the term "creative destruction." Which of the following best states the central idea of this principle?
  - a. When a business fails, the assets and resources from that business become unemployed, resulting in higher government subsidies.
  - \* b. Business failure allows the assets and resources from that business to move into other areas where those resources are now more productive and highly valued.
  - c. Only through frequent business failure will it be possible to avoid income being concentrated in a few rich entrepreneurs.
  - d. The new, rival businesses that drive out old competitors tend to be less efficient and less creative than the older established businesses.
2. Competition as a dynamic process implies that the individual firms in an industry
  - a. face a perfectly elastic demand curve.
  - \* b. utilize a variety of techniques, such as product, style, and price, to win the dollar votes of consumers.
  - c. produce a homogeneous product.
  - d. cooperate, attempting to establish a price and output structure so each firm can survive and continue to serve the consumer.

3. Competition as a dynamic process implies that individual firms in a market
  - a. seek to utilize a variety of techniques, such as product, style, and convenience of location, to win the dollar vote of consumers, but they never use price to compete.
  - \* b. use price competition as well as other forms of competition to gain the dollar votes of consumers.
  - c. produce a homogeneous product.
  - d. cooperate, attempting to establish a price and output structure so each firm can survive and continue to serve the consumer.
4. What role do losses play in a competitive market?
  - a. They penalize a firm for producing a good that consumers value highly relative to its cost.
  - b. They signal that more resources are needed in this market.
  - c. They show firms that barriers to entry are high.
  - \* d. They send a message that more value would be created if the resources were used to produce other goods.

### **Extension Activity: Money on the Move—An Economics Play**

Have the students put on a play to show the multiplier effect on new economic investments. Have the students play different characters. They may show creativity in their characters' remarks, but be sure they get the economics right. Put the students in the same numerical order as listed here.

1. Wal-Mart executive: Wal-Mart is building its first store in a new community. Explain why Wal-Mart is doing this. The student should focus on profits.
2. Construction company owner: The company will build the Wal-Mart shopping center.
3. Subcontractors: They will build the plumbing and electrical infrastructure.
4. Construction company employees: They will be paid.
5. Store owner: She will have more business because more workers have more income. She will also have more competition.
6. Wal-Mart employee: He will have a job.
7. Employee of a competing business: If this business is not competitive, she may lose her job.
8. Consumer: She will have more goods at lower prices.

To take this further, you could draw the circular flow of economic activity on the board or on a transparency. This model provides an overview of how households and businesses interact in the marketplace by exchanging goods and services, productive resources, and money. You could start the circular flow with Wal-Mart selling a good to a consumer. For more detailed information on the circular flow, see *Economics in Action*, National Council on Economic Education, 2003, Lesson 10.

## Wal-Mart, competition, and cost control

### Multiple-Choice Questions:

1. The idea that business failure is a positive force for progress in a market economy is often summarized by the term “creative destruction.” Which of the following best states the central idea of this principle?
  - a. When a business fails, the assets and resources from that business become unemployed, resulting in higher government subsidies.
  - b. Business failure allows the assets and resources from that business to move into other areas where those resources are now more productive and highly valued.
  - c. Only through frequent business failure will it be possible to avoid income being concentrated in a few rich entrepreneurs.
  - d. The new, rival businesses that drive out old competitors tend to be less efficient and less creative than the older established businesses.
  
2. Competition as a dynamic process implies that the individual firms in an industry
  - a. face a perfectly elastic demand curve.
  - b. utilize a variety of techniques, such as product, style, and price, to win the dollar votes of consumers.
  - c. produce a homogeneous product.
  - d. cooperate, attempting to establish a price and output structure so each firm can survive and continue to serve the consumer.
  
3. Competition as a dynamic process implies that individual firms in a market
  - a. seek to utilize a variety of techniques, such as product, style, and convenience of location, to win the dollar vote of consumers, but they never use price to compete.
  - b. use price competition as well as other forms of competition to gain the dollar votes of consumers.
  - c. produce a homogeneous product.
  - d. cooperate, attempting to establish a price and output structure so each firm can survive and continue to serve the consumer.
  
4. What role do losses play in a competitive market?
  - a. They penalize a firm for producing a good that consumers value highly relative to its cost.
  - b. They signal that more resources are needed in this market.
  - c. They show firms that barriers to entry are high.
  - d. They send a message that more value would be created if the resources were used to produce other goods.

# Clip 10: Poverty and entrepreneurship

Length: 3:27

## Concepts Illustrated:

*Capitalism*

*Poverty*

*Entrepreneurship*

## Description:

By using Steve Mariotti, a teacher in one of New York City's worst high schools, as an example, the clip addresses the entrepreneurship process. One former student now owns an athletic apparel store. Another student ran a music business and then a bicycle company. Capitalism is an equalizer between rich and poor by providing a means for poor people to move up the income–distribution chain. People acting out of their own self-interest leads to new products, jobs, and wealth for themselves, their employees, and their customers.

## Preview Question:

“Can poor people become entrepreneurs and succeed in business?”

## Discussion and Analysis Questions:

1. What is an entrepreneur? When entry into markets is open, who can become an entrepreneur?
2. What must an entrepreneur do in order to be successful?
3. Will an entrepreneur have to have a sizeable amount of money in order to start a business? Why or why not?
4. Why might people in poverty be more willing to take risks to earn money?

## Multiple-Choice Questions:

1. In the real world, business decisions must be made through insight and trial and error, without perfect knowledge about demand and costs. Will the profit-maximizing prices and levels of output from the simple economic models still be good guides to real outcomes?
  - a. No, because the simple economic models ignore the opportunity cost of resources.
  - b. No, because even entrepreneurs who are able to find the profit-maximizing prices and level of output will be unable to compete with other entrepreneurs who charge higher prices.
  - c. Yes, because they can hire economists who have sufficient knowledge of costs and demand conditions.
  - \* d. Yes, because the entrepreneurs who are best able to find the profit-maximizing prices and output levels will survive and expand, driving others out of competitive markets.
2. A competitive market economy with low barriers to entry presents an entrepreneur with
  - a. an environment that shields each currently successful producer from changing market conditions.
  - \* b. the opportunity to bring new and different products and services to the market.
  - c. little opportunity for wealth creation.
  - d. a static business environment.
3. Entrepreneurship is characterized by
  - a. the ability to visualize and undertake economically beneficial projects.
  - b. originality and innovation.
  - c. leadership and discovery.
  - \* d. all of the above.

4. In a market economy, individuals have a strong incentive to develop their skills and provide others with resources, goods, and services that they value because these activities generally
  - a. improve the overall efficiency of the economy.
  - b. increase aggregate output.
  - \* c. lead to a higher personal income.
  - d. provide additional tax revenue for the government.

### Extension Activity: Are You an Entrepreneur?

Are there budding entrepreneurs in your class? Distribute the following questionnaire to the class. Ask the students to read each statement on the left and place an "X" in the column that reflects whether they agree or disagree with the statement and how strongly they agree or disagree. Discuss their responses. There are no correct or incorrect answers.

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly Agree
1. I sometimes enjoy taking risks.				
2. I am not afraid of working hard.				
3. When it comes to earning an income, I am a self-starter.				
4. I like to come up with new ideas.				
5. I enjoy earning money.				
6. I like to make my own choices.				
7. Most of the projects I start, I finish.				
8. I want to achieve results based on my own efforts.				
9. Stability is not overly important to me.				
10. I notice things—goods or services—that other people want to have.				

*Higher scores reflect views that are more consistent with entrepreneurship.*

## Poverty and entrepreneurship

### Multiple-Choice Questions:

1. In the real world, business decisions must be made through insight and trial and error, without perfect knowledge about demand and costs. Will the profit-maximizing prices and levels of output from the simple economic models still be good guides to real outcomes?
  - a. No, because the simple economic models ignore the opportunity cost of resources.
  - b. No, because even entrepreneurs who are able to find the profit-maximizing prices and level of output will be unable to compete with other entrepreneurs who charge higher prices.
  - c. Yes, because they can hire economists who have sufficient knowledge of costs and demand conditions.
  - d. Yes, because the entrepreneurs who are best able to find the profit-maximizing prices and output levels will survive and expand, driving others out of competitive markets.
  
2. A competitive market economy with low barriers to entry presents an entrepreneur with
  - a. an environment that shields each currently successful producer from changing market conditions.
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  - a. improve the overall efficiency of the economy.
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## Poverty and entrepreneurship

### Are You an Entrepreneur?

Are there budding entrepreneurs in your class? Distribute the following questionnaire to the class. Ask the students to read each statement on the left and place an "X" in the column that reflects whether they agree or disagree with the statement and how strongly they agree or disagree. Discuss their responses. There are no correct or incorrect answers.

Statement	1 Strongly disagree	2 Disagree	3 Agree	4 Strongly Agree
1. I sometimes enjoy taking risks.				
2. I am not afraid of working hard.				
3. When it comes to earning an income, I am a self-starter.				
4. I like to come up with new ideas.				
5. I enjoy earning money.				
6. I like to make my own choices.				
7. Most of the projects I start, I finish.				
8. I want to achieve results based on my own efforts.				
9. Stability is not overly important to me.				
10. I notice things—goods or services—that other people want to have.				

*Higher scores reflect views that are more consistent with entrepreneurship.*

# Clip 11: Wage discrimination

DVD Clip: Do Women Make Less Money?

Length : 6:35

## Concepts Illustrated:

*Labor markets*

*Discrimination*

*Wage gap*

## Description:

On the surface, the earnings difference between men and women appears to be wage discrimination. Women currently earn 78.5% of men's wages. Martha Burk, chairman of the National Council of Women's Organization and author of *Cult of Power*, suggests women earn less than men performing the same work with the same job title and experience. However, Warren Farrell of the Cato Institute and former board member of the National Organization for Women, disagrees. After reviewing the data which reveal the job characteristics and exploring the desires of men and women, the earning difference is nearly fully explained. Wage discrimination potentially contributes only a small portion of the difference. The clip ends by using a law in Ontario, Canada, which seeks to end discrimination, to illustrate that regulation will not close the wage gap.

## Preview Question:

"Is the earnings gap between men and women the result of employment discrimination?"

## Discussion and Analysis Questions:

1. How will the cost of the firm be affected if the employer discriminates against women and/or minorities? Do employers that discriminate against women and minorities have a competitive advantage over those that hire workers without consideration of race or gender?
2. What is employment discrimination? How can one tell whether a group is discriminated against?
3. Is the earnings difference between men and women the result of employment discrimination? Why or why not?
4. In 2004 approximately 60 percent of the persons graduating from college were women. Does this indicate that colleges discriminate against men and in favor of women?
5. Physical strength is important on some jobs. Do you think differences in physical strength between men and women contribute to earnings differences according to gender? Why or why not? Do they also influence the share of men relative to women that will pursue a college education? Explain.

## Multiple-Choice Questions:

1. Which of the following would constitute the strongest evidence of employment discrimination against female employees?
  - a. The average wage of female workers is lower than the average wage of males.
  - \* b. The average wage of female employees is lower than the average wage of males with similar productive characteristics.
  - c. The mean number of years of schooling of female workers is lower than that of males.
  - d. The average hours worked by female employees is less than the average hours worked by males.
2. When employment discrimination results from the personal prejudices of employers, economic theory suggests that
  - a. the costs of the discriminating firm will not be affected.
  - b. the wages of employees who are discriminated against will rise.
  - \* c. an employer who discriminates will experience higher costs.
  - d. discrimination by an employer will reduce production costs since the employer can pay lower wages.

3. During the last two or three decades, the educational and career choices of women have become
  - a. more like those of men, and the earnings of women have declined relative to those of men.
  - \* b. more like those of men, and the earnings of women have increased relative to those of men.
  - c. less like those of men, and the earnings of women have increased relative to those of men.
  - d. less like those of men, and the earnings of women have declined relative to those of men.

## Extension Activity: Human Capital, Employment, and Income

This video clip can be a trigger for a discussion on why some people make more money than others. Income for most people is determined by the market value of the productive resources they sell. The resource most people have is their labor. The more productive that labor is, the more they sell it for.

Investing in yourself can improve your productivity. This is called “human capital.” Nobel Laureate Gary Becker put it this way:

“Human capital analysis starts with the assumption that individuals decide on their education, training, medical care, and other additions to knowledge and health by weighing the benefits and costs. Benefits include cultural and other nonmonetary gains along with improvement in earnings and occupations, whereas costs usually depend mainly on the forgone value of the time spent on these investments. The concept of human capital also covers accumulated work and other habits, even including harmful addictions such as smoking and drug use. Human capital in the form of good work habits or addiction to heavy drinking has major positive or negative effects on productivity in both market and nonmarket sectors.” (“The Economic Way of Looking at Behavior,” *Journal of Political Economy*, 1993, vol. 101, p. 385)

The lesson for students is that inequality in earnings relates to differences in talents, education, and training. The growth of earnings inequality in the United States in recent years is explained by higher salaries for more educated and better trained workers.

The returns from education can be illustrated to the students by comparing educational levels and earnings. Here are median earnings by group for 2004:

High school dropout	\$20,176
High school graduate	\$27,768
Some college	\$32,396
College graduate	\$46,384
Advanced college degree	\$57,480

Source: U.S. Bureau of Labor Statistics

People make choices, and choices have consequences. Getting more education is a choice that pays off.

For a more detailed lesson on human capital, see Lesson 3, “Invest in Yourself,” *Learning, Earning and Investing*, National Council on Economic Education, 2004.

## Wage discrimination

### Multiple-Choice Questions:

1. Which of the following would constitute the strongest evidence of employment discrimination against female employees?
  - a. The average wage of female workers is lower than the average wage of males.
  - b. The average wage of female employees is lower than the average wage of males with similar productive characteristics.
  - c. The mean number of years of schooling of female workers is lower than that of males.
  - d. The average hours worked by female employees is less than the average hours worked by males.
  
2. When employment discrimination results from the personal prejudices of employers, economic theory suggests that
  - a. the costs of the discriminating firm will not be affected.
  - b. the wages of employees who are discriminated against will rise.
  - c. an employer who discriminates will experience higher costs.
  - d. discrimination by an employer will reduce production costs since the employer can pay lower wages.

## Clip 12: Child labor laws

DVD Clip: *Underage Bat Boy*

Length: 2:37

### Concepts Illustrated:

*Regulation of labor markets*

*Secondary effects*

*Political decision-making*

### Description:

The major point of the segment is to identify the government's role in regulating labor markets with an emphasis on children. The segment begins with an example in Savannah, GA and an underage batboy working past 7 p.m. When the Labor Department became involved, the batboy was fired. The point is made that children under 16 can work late while baby-sitting with a lot of responsibility but they cannot work for a business past certain hours. While the regulations are meant to protect children, many times the regulations actually harm children by taking work away from them.

### Preview Question:

"Do you think that young workers, say, teenagers under 16, should be able to work at part-time jobs if they wish to and their parents approve?"

Accept a variety of responses. Here are some relevant points to bring up:

- *Many young people may not wish to work part-time jobs but many others would.*
- *Work is often a good use of time. Young people earn money and learn to be responsible.*
- *Today's child labor laws create incentives that discourage many employers from hiring young people who otherwise would like to work.*

### Discussion and Analysis Questions:

1. Are government regulations needed to protect children from being oppressed by either their parents or by employers? Why or why not?
2. If an employee and employer agree to the compensation and working conditions for a job, should government regulations interfere? Why or why not?
3. "Government regulations are a blunt tool. They cannot cover all situations in a sensible manner. Thus, they should be used sparingly." Indicate why you either agree or disagree with this view.
4. Like many other employers, Wendy's will not hire young people under the age of 16. Why do you think this is the case?

**Points to consider:** Child labor laws require a lot of record-keeping. Companies face fines if they are caught making a mistake. These companies have decided that the benefits of hiring younger workers are not worth the costs.

### Multiple-Choice Questions:

1. A decrease in resource prices will increase the incentive of  
\* a. users to purchase the resource.  
b. suppliers to provide more of the resource.  
c. firms to find and develop substitutes for the resource.  
d. consumers to look for alternatives that do not contain the resource.

2. Which of the following best explains why regulatory costs will be passed on to consumers in the form of higher prices?
  - \* a. Regardless of the reasons, higher per-unit costs will reduce supply, which will push prices upward.
  - b. Higher regulatory costs will increase the demand for the product, which will increase the price.
  - c. Higher regulatory costs will make consumers more aware of how valuable the product is to them, which will push the price upward.
  - d. This is a trick question. Higher costs stemming from regulation generally do not lead to increases in product prices.
  
3. How does costly government regulation of the production process typically affect the market for the product being produced?
  - a. Price is lower, and output is higher.
  - \* b. Price is higher, and output is lower.
  - c. Both price and output are higher.
  - d. Both price and output are lower.

## Extension Activity: Jake and Adell Look for a Job

Distribute the following handout to your class. Ask the students to read the case study and answer the Questions for Discussion.

### Jake and Adell Look for a Job

Mr. Sentry is the manager of a suburban Chicago grocery store that is part of a large national chain. Store policy requires that the store remain open until 9:00 p.m. so that late-working customers can still shop for groceries.

Mr. Sentry always keeps an eye out for good employees. Jake and Adell, who are both 15 years old, approached Mr. Sentry to ask if they could get jobs bagging groceries and helping customers carry grocery bags to their cars. They said that their parents agreed that an after-school job was okay.

Mr. Sentry praised Jake and Adell for their willingness to work and told them that he got started in the grocery business by taking on just such a job. He said he would check out the employment policies and get right back to them.

Mr. Sentry went to the U.S. Department of Labor website to do some research about hiring teenagers the age of Jake and Adell. He learned that there are strict rules regarding underage workers. Complying with the rules meant keeping careful records. Failure to comply with the rules could result in serious fines.

Mr. Sentry read that young people who are 14 and 15 or younger can only work:

- Outside of school hours,
- After 7:00 a.m. and until 7:00 p.m. except from June 1 until Labor Day when they can work until 9:00 p.m.,
- No more than three hours on a school day,
- No more than 18 hours a week,
- No more than eight hours on a non-school day,
- No more than 40 hours in a non-school week.

The federal government says that 15-year-olds may work in the following jobs:

- Office
- Grocery store
- Retail store
- Restaurant
- Movie theater
- Baseball park
- Amusement park
- Gasoline service station

The federal government prevents young people from working in many other jobs such as those in communications, construction, repair, manufacturing, mining, and warehousing. States may have additional rules regarding the hiring of young people.

## Questions for Discussion

1. Why might Mr. Sentry wish to hire young people? (Jake and Adell seemed like eager workers and their parents agreed. Mr. Sentry wanted to hire good employees.)
2. Why might young people wish to work? (Earn income and fill time with something other than schoolwork and video games.)
3. Why might employers be discouraged from hiring young people? (There are numerous federal rules regarding hours and types of jobs. The hourly restrictions meant that Jake and Adell would have to punch out at 7:00 p.m. during the school year. Failure to comply with the rules could lead to fines.)
4. Do you think Mr. Sentry will hire Jake and Adell? (Probably not. The hourly restrictions do not fit well with the situation in his store. He would worry that somehow Jake and Adell would work too many hours or work too late. Mr. Sentry might wonder if the benefits of hiring Jake and Adell were worth all the inconveniences.)

## Child labor laws

### Multiple-Choice Questions:

1. A decrease in resource prices will increase the incentive of
  - a. users to purchase the resource.
  - b. suppliers to provide more of the resource.
  - c. firms to find and develop substitutes for the resource.
  - d. consumers to look for alternatives that do not contain the resource.
  
2. Which of the following best explains why regulatory costs will be passed on to consumers in the form of higher prices?
  - a. Regardless of the reasons, higher per-unit costs will reduce supply, which will push prices upward.
  - b. Higher regulatory costs will increase the demand for the product, which will increase the price.
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## Child labor laws

### Jake and Adell Look for a Job

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### Questions for Discussion

1. Why might Mr. Sentry wish to hire young people? (Jake and Adell seemed like eager workers and their parents agreed. Mr. Sentry wanted to hire good employees.)
2. Why might young people wish to work? (Earn income and fill time with something other than schoolwork and video games.)
3. Why might employers be discouraged from hiring young people? (There are numerous federal rules regarding hours and types of jobs. The hourly restrictions meant that Jake and Adell would have to punch out at 7:00 p.m. during the school year. Failure to comply with the rules could lead to fines.)
4. Do you think Mr. Sentry will hire Jake and Adell? (Probably not. The hourly restrictions do not fit well with the situation in his store. He would worry that somehow Jake and Adell would work too many hours or work too late. Mr. Sentry might wonder if the benefits of hiring Jake and Adell were worth all the inconveniences.)

## Clip 13: Investment versus giving

DVD Clip: *Ted Turner Gives to the U.N.*

Length: 3:02

### Concepts Illustrated:

*Investment*

*Wealth creation*

*Economic growth*

*Poverty*

*Income transfers*

### Description:

After Ted Turner announced he was giving one billion dollars to U.N. charities, the media applauded his actions. T.J. Rodgers, founder of Cypress Semiconductor, and philosopher David Kelley believe Turner's money would be better used in other capacities. Both make the point that perhaps a better and more effective way to help people is to create jobs and expand business opportunities. This way, those people can be productively employed and support themselves instead of relying on charity to carry them along. Ted Turner and other wealthy individuals became wealthy because they are good at identifying and expanding productive business opportunities. Instead of giving their money away, some argue that continuing to engage in business is the best way for them to help people.

### Preview Question:

"Is it better to give than to invest?"

*Clearly explain the difference between the two and then poll students with regard to their views about which is better.*

### Discussion and Analysis Questions:

1. What is involved in the creation of wealth? Do gifts and income transfers from one party to another create wealth?
2. When entrepreneurs like Sam Walton, the founder of Wal-Mart, hire workers and operate successful businesses, do their actions create wealth? Do they help the poor? Discuss.
3. Would America be a better place to live if there was less investment and more charitable giving? Would Americans be better off if investment was less and taxes and income transfers were higher?
4. Do income transfers generally improve the status of the poor? Do they increase the income of the poor by the amount of the transfer? Discuss.

### Multiple-Choice Questions:

1. Which of the following is considered an economic investment?
  - a. Charitable contributions to help the poor
  - b. Money invested in stocks and bonds
  - \* c. Purchases of new computers by businesses
  - d. Government programs to help the poor

2. When an entrepreneur like Bill Gates makes \$10 billion through creating and selling new products,
  - a. there will be exactly \$10 billion less for other individuals in the economy.
  - \* b. the total size of the economic pie has been increased.
  - c. there will be more than \$10 billion in losses to other workers who lose their jobs.
  - d. it is likely that the new products are not as good as other products that are available in the market.
3. When an investment project generates output that is valued more highly than the value of the resources required for its production,
  - a. undertaking the project will create wealth.
  - b. it will generally be profitable to undertake the project if property rights are securely defined and enforced.
  - c. entrepreneurs seeking profit will have little incentive to undertake such projects.
  - \* d. both a and b are correct.
4. Which of the following is true concerning the distribution of income?
  - a. Various measures of income inequality can be used to objectively determine the fairness of an income distribution.
  - b. When the political process is democratic, income transfer programs can be counted on to redistribute income from the rich to the poor.
  - \* c. The fairness of an income distribution is a normative concept; it cannot be determined objectively by economic criteria.
  - d. The more income inequality, the fairer the distribution of income.

### Extension Activity:

Many students are confused about what investment really is. They confuse economic investment with financial investment. Financial investment is buying stocks, bonds, and other assets. This can be channeled into economic investment, but money is not investment. If it were, we could make everyone richer by creating more of it. Economic investment is increasing the amount of physical and human capital. Investing includes:

- Increasing the amount of buildings and machinery,
- Increasing the level of technology, and
- Increasing the skills of workers.

Competitive markets, profit motive, political stability, low inflation, and the protection of property rights increase investment.

A way to illustrate the importance of investment is Lesson 43, “Why Are Some Nations Wealthy?” in *Capstone: Exemplary Lessons for High School Economics*, National Council on Economic Education, 2003. The lesson provides data on different countries and asks students to rank the nations according to their wealth. It turns out that it is the level of investment—not the amount of national resources—that makes countries wealthy.

## Investment versus giving

### Multiple-Choice Questions:

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  - b. Money invested in stocks and bonds.
  - c. Purchases of new computers by businesses.
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  - d. The more income inequality, the fairer the distribution of income.

## Clip 14: Is making money good or bad?

Length: 1:55

### Concepts Illustrated:

*Role of profits and losses*

*Wealth creation*

*Economic growth*

### Description:

Through an interview with T.J. Rodgers, founder of Cypress Semiconductor, the role of the profit motive is brought to life. By “making money” Rodgers generates substantial wealth for himself. But the benefits are more widespread than Rodgers’ possessions. Jobs are created which allow his employees to buy their homes, pay for school, and save for retirement. His customers benefit by obtaining new products. The company had one employee and zero net worth in 1982. Today the company employs 2,500 employees and is worth \$1.4 billion. All of this wealth was created by the motive to increase profits.

### Preview Question:

“Is making money good or bad?”

### Discussion and Analysis Questions:

1. What is profit? In a market economy, what must a firm do in order to make a profit?
2. How are the following groups affected by the profitable production of a good or service: (a) the consumers of the product, (b) the employees of the firm producing the product, and (c) the owners of the business supplying the product?
3. What role do profits and losses play in a market economy? Does it matter whether a good is produced at a profit or at a loss? Explain.
4. “Production should be for people, not for profit.” Indicate why you either agree or disagree with this statement.
5. India’s first Prime Minister, Jawaharlal Nehru, said, “Never talk to me about profit. It is a dirty word.” Indicate why you either agree or disagree with Mr. Nehru.

### Multiple-Choice Questions:

1. Entrepreneurs are
  - a. French businesspeople.
  - b. people who shy away from innovation.
  - \* c. people who take risks to produce goods and services consumers want.
  - d. people who start small businesses that soon fail.
2. When profits occur in a competitive market, this indicates that
  - \* a. consumers value the goods more than the resources used to produce them.
  - b. producers value the goods more than the resources used to produce them.
  - c. producers value the goods more than consumers value the goods.
  - d. consumers value the goods less than the resources used to produce them.

3. The owners of a firm are earning economic profit if
  - a. return on their capital is lower than the opportunity cost of employing that capital in their industry.
  - b. their total revenues exceed the monetary payments to labor and other resources in the long run after all plant size adjustments are made.
  - c. price exceeds average variable costs at the shutdown point.
  - \* d. they are earning a return on their capital that is higher than what can generally be earned in other markets.
4. Which of the following is most important for the growth of income and full realization of an economy's potential?
  - a. A positive rate of time preference that motivates a high rate of current consumption.
  - b. Low real interest rates.
  - c. The use of central planning to allocate investment funds.
  - \* d. A mechanism capable of attracting savings and channeling them into investment projects that create wealth.

### **Extension Activity: Profits Are the Price Paid for Efficiency**

Many people—some of whom are very intelligent—have a fundamental misunderstanding of the role of profits in a market economy. Many people think of profits as an “extra.” They view profits as additional charges that businesses add on to their products. They are an extra expense.

Economists disagree. Economists view profits as an incentive that rewards businesses for voluntarily providing consumers with the goods and services they wish to have. Losses are just as important. Fear of losses forces businesses to be as efficient as possible. If they are not, they go out of business.

Thomas Sowell, a well-known economist, writes: “While capitalism has a visible cost—profit—that does not exist under socialism, socialism has an invisible cost—inefficiency—that gets weeded out by losses and bankruptcy under capitalism. The fact that most goods are more widely affordable in a capitalist economy implies that profit is less costly than inefficiency. Put differently, profit is the price paid for efficiency.” (From *Basic Economics: A Citizen's Guide to the Economy*, Basic Books, 2004, p 81.)

#### **Questions for Discussion**

1. Why are profits sometimes associated with greed? (Profits are visible. People often view them as an extra charge added by businesses.)
2. What does economist Thomas Sowell say is the hidden cost of socialism? (Inefficiency)
3. What role do profits and losses play in a market economy? (Profits provide an incentive for business to voluntarily produce the goods and services desired by consumers. Fear of losses encourages producers to be as efficient as possible.)

## Is making money good or bad?

### Multiple-Choice Questions:

1. Entrepreneurs are
  - a. French businesspeople.
  - b. people who shy away from innovation.
  - c. people who take risks to produce goods and services consumers want.
  - d. people who start small businesses that soon fail.
  
2. When profits occur in a competitive market, this indicates that
  - a. consumers value the goods more than the resources used to produce them.
  - b. producers value the goods more than the resources used to produce them.
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3. The owners of a firm are earning economic profit if
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  - b. Low real interest rates.
  - c. The use of central planning to allocate investment funds.
  - d. A mechanism capable of attracting savings and channeling them into investment projects that create wealth.

## Clip 15: Poverty in the U.S.

Length: 3:05

### Concepts Illustrated:

#### Poverty

### Description:

The segment brings to light some of the items included and not included in the official wage data. The Federal Reserve data that's often cited doesn't include such items as sales commissions, retirement contributions, and medical insurance. When these items are included, compensation has increased 20% instead of staying flat or going down as some suggest. Jim Hightower of Hightower Radio suggests poor people are being left behind and suggests John visits some poor people to see how they really live. As people in the poorest Congressional district, the South Bronx, are interviewed it becomes apparent that poverty in the U.S. is nothing like poverty in other countries. Most of the poorest U.S. citizens have adequate housing and own items such as VCRs, microwaves, refrigerators, and cable television.

### Preview Question:

**“What does it mean to be poor in America?”**

*Have the students brainstorm on this question and focus on a definition of what it means to be poor. Is it the amount of money earned or a lack of basic needs such as housing, medical care, and food?*

### Discussion and Analysis Questions:

1. What makes a person poor? Is poverty an absolute or relative concept?
2. How does poverty in the United States differ from poverty in Africa, Asia, or South America?
3. Just because poor people in the United States have things like color television sets and automatic dishwashers, does this mean that poverty in the U.S. is a less serious problem? Why or why not?
4. How is poverty in the United States measured? What is the poverty threshold income level? Does it change from year to year?

### Multiple-Choice Questions:

1. Most studies indicate that the degree of income inequality in the United States has
  - a. been increasing in recent decades.
  - b. been declining in recent decades.
  - c. been constant since 1970.
  - d. fluctuated widely from year to year.
2. The poverty threshold income level is
  - a. an absolute amount that applies to all families equally (i.e., \$15,000 household earnings for 1999).
  - \* b. variable with respect to family size and composition.
  - c. adjusted once each decade, with the census numbers.
  - d. all of the above.

3. Which of the following is not counted as income when the official poverty rate is calculated?
  - \* a. Medicaid benefits.
  - b. Dividends derived from the ownership of stock.
  - c. Earnings derived from a part-time job.
  - d. Money income derived from transfer payments.
  
4. Analysis of the economic status of poor people reveals that
  - a. most are poor because they did not have the opportunity to obtain training and a quality education.
  - b. most had poor parents, grandparents, and great-grandparents, suggesting that poverty is inherited.
  - c. the poverty population is very homogeneous regarding opportunity, cultural disadvantages, alcoholism, and other personal contributing factors.
  - \* d. poverty is a complex issue; the poor are a heterogeneous population, and the causes of poverty are multidimensional.

## Extension Activity: Poverty Around the World

One way to analyze relative poverty is to discuss statistics from different countries. One source is the *Pocket World in Figures*, an annual publication of *The Economist*. Another source is the *CIA World Factbook*, which is available online at <http://www.odci.gov/cia/publications/factbook/index.html>

Here are a few figures the students could consider:

	U.S.	Japan	Egypt	Mexico	India
<b>GDP per head</b>	\$35,200	\$32,520	\$1,430	\$6,150	\$470
<b>Life expect.—men</b>	74.3 yrs.	77.9 yrs.	66.7 yrs.	70.4 yrs.	63.2 yrs.
<b>Life expect.—women</b>	79.9 yrs.	85.1 yrs.	71.0 yrs.	76.4 yrs.	64.6 yrs.
<b>Adult literacy</b>	99.0%	99.0%	56.1%	91.7%	58.0%
<b>Color TVs per 100 households</b>	99.5	99.1	47.3	89.4	31.1
<b>Computers per 100 population</b>	62.3	34.9	1.6	6.7	0.6

Source: *Pocket World in Figures, 2004 Edition*.

In 2004 the nation with the highest per capita GDP was Luxembourg at \$41,950. The United States had the third-highest per capita GDP. The lowest per capita GDP was \$100 in Congo, Ethiopia, and Myanmar.

Ask these questions:

1. How does the economic quality of life relate to per capita GDP? (The higher the per capita GDP, the higher the economic quality of life.)
2. Do countries with high per capita GDP have little poverty? (Every country has poverty, but it is more severe in countries with low per capita GDP.)

## Poverty in the U.S.

### Multiple-Choice Questions:

1. Most studies indicate that the degree of income inequality in the United States has
  - a. been increasing in recent decades.
  - b. been declining in recent decades.
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## Poverty in the U.S.

### Poverty Around the World

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Life expect.–women	79.9 yrs.	85.1 yrs.	71.0 yrs.	76.4 yrs.	64.6 yrs.
Adult literacy	99.0%	99.0%	56.1%	91.7%	58.0%
Color TVs per 100 households	99.5	99.1	47.3	89.4	31.1
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# Clip 16: School choice

Length : 3:40

## Concepts Illustrated:

*Education*

*Competition*

*Political decision-making*

## Description:

Part of the segment illustrates the difference between what politicians vote for in the legislature and what they do in their private lives. Some, like former President Bill Clinton, Senator Lincoln Chaffee, and Senator Edward Kennedy, promote public education while sending their own children to private schools. The overriding theme is the choices available, or not available in some cases, to parents regarding where to send their children. For many parents, private schooling is too expensive so the only option is the public school system. In many cases, the public schools are inferior. In some cases, the public schools are also more dangerous.

## Preview Question:

**“Should parents be able to send their children to private schools using public money?”**

*Accept a variety of responses. Here are some relevant points to bring up:*

- *Many education critics have argued that the K-12 schools are a government monopoly.*
- *Economists often argue that providing vouchers for parents to be able to send their children to private schools would increase competition in the public schools and encourage them to perform better.*

## Discussion and Analysis Questions:

1. Should parents have to send their children to government-operated schools in order to receive a subsidy for elementary and secondary education?
2. Why are public schools often regarded as a government-operated monopoly?
3. Would the quality of education provided by public schools decline if tax funds also provided some funds for parents who send their children to private schools? Why or why not?
4. Does competition generally serve the interests of consumers? How strong is competition in the market for elementary and secondary education in the United States? Does this matter?
5. Suppose that the restaurant industry was organized in the same manner as elementary and secondary education: Government-operated restaurants provided “free” taxpayer-funded food to those living in various districts, and while food service from private restaurants was available, consumers patronizing the private firms had to pay the full cost. How would this form of organization influence the cost, quality, and consumer satisfaction of food service?

## Multiple-Choice Questions:

1. Which of the following is true?
  - a. Real spending per student in American public elementary and secondary schools has fallen significantly since 1970.
  - \* b. Spending per student in American public elementary and secondary schools is higher than in most developed countries.
  - c. The achievement scores of American students are higher than those of students in most developed countries.
  - d. The achievement scores of American students have risen since the late 1960s.

2. Strong competition in a market will generally lead to
  - a. production inefficiencies and higher costs.
  - \* b. improvements in the quality of the good or service available to consumers.
  - c. dissatisfaction of consumers about the quality and availability of the product.
  - d. high prices and low quality of the product or service.
  
3. If elementary and secondary schooling were produced entirely by private firms and purchased by parents with their own money,
  - a. parents would have a strong incentive to search out those schools offering their children the best education at the best value.
  - b. schools would better cater to the desires of parents and supply education more efficiently.
  - c. schools would face much stronger competition from one another that would tend to increase the quality of schooling.
  - \* d. all of the above would occur.
  
4. The incentive of schools to provide a high-quality education at a low cost and the incentive of parents and students to shop around for the best schools will be weakest when education is produced
  - a. privately but paid for by taxpayers and provided free of charge.
  - \* b. by public schools and the cost of education is covered by taxes.
  - c. privately and parents must purchase it with their own money.
  - d. by public schools and parents purchase it with their own money.

## Extension Activity: Economists Vouch for Vouchers

Explain to the class that many economists are sympathetic to the view that vouchers in public education would increase competition and provide strong incentives for both public and private schools to perform better.

Distribute the following handout to the class. Explain that the handout provides a fictional interview between a reporter for the *Daily News* and an economist named Econ Eddy. It presents the views held by many economists on the use of vouchers in K-12 schools. Ask for two volunteers to read the interview to the class.

- Daily News Reporter:** Why should we provide parents with public money—tax dollars—for them to send their children to private schools?
- Econ Eddy:** The idea is to get as many students as possible into schools where their parents want them to go. That is what most parents seem to want for their kids.
- Daily News Reporter:** Economists seem confident that competition would work to bring out the best in public schools. Why is that?
- Econ Eddy:** Competition works effectively to bring about improvements in other sectors of our economy. Why wouldn't it work in education? Suppose that the restaurant industry were organized in the same manner as elementary and secondary education. Government-operated restaurants would provide "free" taxpayer-funded meals to those living in specified districts. Meals from private restaurants would be available, but consumers patronizing the private firms would have to pay very high prices. Under these conditions, many people would make due with the government-provided "free" meals. A lot of meals would be produced, but very few people would want to eat them.
- Daily News Reporter:** Isn't it better for democracy that all students go to a uniform public school system? After all, many respected members of Congress oppose these vouchers. They say it hurts democracy.
- Econ Eddy:** Schools in America have never been uniform. Certainly all children should learn about basic democratic ideas, but that doesn't mean that they all should attend identical schools. Moreover, many members of Congress avoid the public schools in their area and send their own children to private schools.

**Daily News Reporter:** Many people fear that if all parents had access to vouchers, that all the middle-class families would leave the system and only the poor and students with problems would remain behind. Do you think this would happen?

**Econ Eddy:** While this might be a concern, it has no basis in fact so far. The nation has thousands of charter schools, and some states have voucher programs. Milwaukee has a program that has been operating for several years. The first kids and parents to leave the public schools were students who struggled in the existing system. There has been no massive exodus of successful students.

**Daily News Reporter:** Wouldn't public schools lose funding under a voucher system?

**Econ Eddy:** Not necessarily. Successful public schools would keep their enrollments, and, as a result, they would keep their funding. It is only the failing schools, ones that parents would avoid, that would fail.

## School choice

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## School choice

### Economists Vouch for Vouchers

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