INSTRUCTOR'S MANUAL

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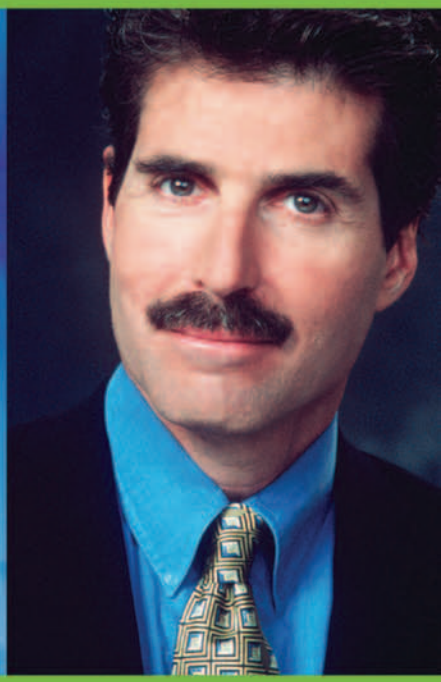


Teaching Tools for

MICROECONOMICS

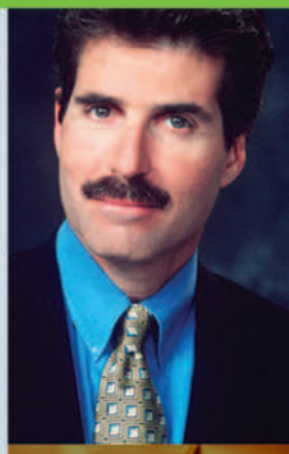
from John Stossel

HIGH SCHOOL EDITION

Instructor's Manual to Accompany

Teaching Tools for **MICRO**ECONOMICS from JOHN STOSSEL

HIGH SCHOOL EDITION



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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 items for each clip:

(1) a list of the various concepts covered by the clip,
(2) a video description,
(3) the Voluntary National Content Standards in Economics that are covered,
(4) a preview question,
(5) discussion and analysis questions,
(6) an extension activity, and
(7) multiple-choice questions.

Many teachers will want to use the preview question to introduce the clip and focus the students on the major topic to be covered. Many preview questions encourage the students to share their opinions prior to viewing the video. After the video is shown, the discussion and analysis questions provide suggested focal points for additional discussion. The suggested answers help teachers bring up discussion points and are not designed to provide definitive answers to the questions. These questions may also be used to assess student understanding of the topics covered in the video clip. The extension activity can be used to reinforce the content of the clip. In some cases, this material is also appropriate for use as a homework assignment. Finally, the multiple-choice questions can be used to assess student understanding of the topic.

We believe that these video clips, along with selected use of materials from this manual, will help teachers enrich their classes and bring economic concepts more alive for their students.

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

DVD Clip: Cost and Benefits of Government Regulation

Length: 4:48

Concepts Illustrated:

Incentives
Marginal analysis
Risk assessment
Secondary effects
Trade-offs

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 probably 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).

Voluntary National Content Standards in Economics

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

2. Effective decision-making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.

4. People respond predictably to positive and negative incentives.

17. Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Preview Question:

"We would all like for the world to be a safe place. Assuming for a moment that it would be possible to eliminate all of the day-to-day risks we face, why do you suppose economists say that it would be foolish to do so?"

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

- *All choices involve a cost.*
- *Making life safer requires allocating resources that have alternative uses.*
- *Some resources could be used more efficiently in other ways. For example, how much would you be willing to pay in time and resources to make driving on freeways completely safe? These resources might be used more efficiently to achieve other goals.*

Discussion and Analysis Questions:

1. When do children riding school buses face the greatest risks: when they are riding on a school bus or when they are getting off the school bus? (According to the Harvard School of Public Health, students are more likely to be hurt getting off the bus.)

2. What is the opportunity cost of spending $1,800 per school bus to install seat belts as advised by Ralph Nader? (This amount of spending for each school bus equals many millions of dollars. Spending millions to require seat belts on school buses would save some lives. However, children face greater risks getting off school buses. Spending money to make it safer for students when they are exiting their buses could save many more lives. The opportunity cost of installing seat belts is the additional children's lives that would have been saved by spending funds to reduce larger risks.)

3. 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"? (Dr. Graham says that it is statistical murder when policy makers use resources to reduce minor risks rather than major risks. For example, it is statistical murder when policy makers decide to spend $50 million to save a few lives when they could spend the $50 million to save hundreds of lives.)

4. Marginal analysis means studying how a change affects a situation. What would be the immediate effect on the safety of infants if the federal government required that all infants had to ride in safety seats on airplanes? In other words, what would be the immediate effect if parents would have to buy an additional seat in the airplane in which to place the infant in the safety seat? (Probably fewer infants would be killed in airplane crashes.)

5. Secondary effects are the indirect and often unintended effects of a decision. What would be the secondary effect of requiring that all infants ride in safety seats when they travel on airplanes? (The cost would increase for parents who wish to fly with their infants. This increase in cost would discourage many parents from flying at all. Instead, they would drive. Travel on roads is much more dangerous than travel in airplanes. Therefore, it is likely that if the government required all infants to ride in safety seats on airplanes, many more infants would be killed when traveling.)

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.)

Multiple-Choice Questions:

1. What is the opportunity cost of spending millions of dollars to put seatbelts in schoolbuses?

* 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.

2. 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.

Opportunity costs, trade-offs, and secondary effects

Multiple-Choice Questions:

1. What is the opportunity cost of spending millions of dollars to put seatbelts in schoolbuses?

   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.
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   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.

Clip 2: Economics of private property rights

DVD Clip: Is Sharing Good?

Length: 4:07

Concepts Illustrated:

Incentives
Private property rights
Private versus common property ownership
Tragedy of the Commons

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.

Voluntary National Content Standards in Economics

4. People respond predictably to positive and negative incentives.

10. Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and well enforced property rights, is essential to a market economy.

Preview Question:

"Why do people take better care of things they own?"

Accept student answers without judgment. Here are some relevant points to bring up:

- *When people own something, they have an incentive to care for it because they receive a greater reward by treating their possessions well.*
- *Possessions that are well cared for can be sold for more money.*
- *People take pride in what they own.*
- *People have an incentive to preserve property they own.*

Discussion and Analysis Questions:

1. Why are most people's homes cleaner than public parks? (People have an incentive to preserve their property because they are free to use it in the future or sell it. People litter parks because they have no control over what others do.)

2. What is the Tragedy of the Commons, and why does it occur? (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.)

3. Why are there so few elephants and so many cows? (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.)

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.)

Multiple-Choice Questions:

1. 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.

2. When private ownership rights are clearly defined and well enforced, owners of resources and assets

a. have no incentive to consider the desires of others.

* b. bear the opportunity cost of ignoring the wishes of others.

c. are not responsible if the use of their assets imposes harm on others.

d. have little incentive to take care of their assets.

Economics of private property rights

Multiple-Choice Questions:

1. Private ownership of property

   a. provides owners with an incentive to maintain and conserve resources.
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Clip 3: Exchange and wealth creation

DVD Clip: Greed
Length: 6:46

Concepts Illustrated:
Economic growth
Entrepreneurship
Gains from trade
Innovation and technological change
Wealth creation

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.

Voluntary National Content Standards in Economics

5. Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

14. Entrepreneurs are people who take the risk of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

Preview Question:

"If Bill Gates earns an additional billion dollars from the development of new computer software, 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. If Bill Gates earns an additional billion dollars from the development of new computer software, does this mean that the rest of us have a billion dollars less? (It certainly does not. Consumers have new software and many employees and investors have higher incomes. If the students have trouble relating to the Bill Gates example, bring up Steve Jobs and the iPod from Apple and ask if they benefited from the iPod.)

2. How do the results of pursuing wealth differ under a market economy versus a government command economy? (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. Why do people gain when they trade voluntarily? (A person will trade only if he or she benefits so unless both the buyer and the seller benefit, the trade will not take place.)

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.

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 trade 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.

Exchange and wealth creation

Multiple-Choice Questions:

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   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.

Clip 4: Invisible hand steak example

DVD Clip: Why Steak Gets to New York

Length: 3:29

Concepts Illustrated:

Incentives

Invisible hand

Market coordination

Description:

This 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 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.

Voluntary National Content Standards in Economics

7. Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

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? (It is the self-interest of the people who have raised the cattle, shipped the cattle, butchered the cattle, packaged the steak, and served the steak to you. They did this because they benefited. But they could get more for themselves only by getting more for you.)

2. When you have a nice steak dinner at a local restaurant, literally thousands of people engage in actions that make your dinner possible. What coordinates their actions? (Everything is coordinated by relative prices and profits.)

3. Is self-interest the same thing as greed? (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 does not get beef to New York.)

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.

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 his or her own self-interest rather than 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.

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

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   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:

Incentives
Price ceiling
Price control
Secondary effects

Description:

Rent control is intended to help 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 rents 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 building deteriorate or abandon their investment.

Voluntary National Content Standards in Economics

8. Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

Preview Question:

"Is the price of rental housing too high and would rent control 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 control make housing more available to the poor? (A price ceiling will lower rents but will also make housing less available to everyone. And there is no guarantee that the poor rather than the rich will be able to rent the apartments.)

2. What are some of the primary and secondary effects of rent control? (The primary effect is to lower rents on controlled apartments. However, more people will want to rent at lower prices [higher quantity demanded], and fewer apartments will be available for rent [lower quantity supplied]. There will be a shortage of rental housing. In addition, some people will bribe landlords to get the apartments that are available.)

3. Will rent control cause a greater shortage of apartments in the short run or in the long run? (There will be a greater shortage in the long run. In the long run, apartments will be converted into condominiums, fewer apartments will be built, and apartments will not be maintained.)

Extension Activity: Graphing Price Ceilings

Some students will be able to understand price ceilings better on a graph. A practice exercise may be worth a thousand words. Draw a supply and demand graph for rental housing. Show the equilibrium price. Then draw a line below the equilibrium price. This is a price ceiling because the government will not allow the price to go above this price ceiling. Imagine little people trying to jump up to the equilibrium price. The price ceiling stops them from going higher. In explaining the graph, discuss the role of incentives. The lower price is an incentive for consumers to rent more apartments and an incentive for sellers to provide fewer apartments. The result is a shortage of apartments.

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.

Multiple-Choice Questions:

1. When a price ceiling is imposed below the equilibrium price of a quantity, then
   a. the quantity supplied will be greater than the quantity demanded of the good.
   b. the problem of scarcity will be solved.
   * c. the quantity demanded will be greater than the quantity supplied of the good.
   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 illegal 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.

Rent control

Multiple-Choice Questions:

1. When a price ceiling is imposed below the equilibrium price of a quantity, then

   a. the quantity supplied will be greater than the quantity demanded of the good.
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Clip 6: Are prescription drug prices too high?

DVD Clip: Pharmaceutical Prices

Length: 6:29

Concepts Illustrated:

Incentives
Price ceiling
Price control
Profit
Secondary effects

Description:

Protestors against U.S. pharmaceutical companies claim the companies are setting prices too high and that the prices are not reflective of the costs to bring a drug to market. The segment reveals that most drugs never make it to market but the companies incur large costs in research and development, which must be recouped through the drugs that do make it to market. If price controls were implemented, research would fall, and fewer new drugs would be created. Both of these would have negative impacts on the quality of life.

Voluntary National Content Standards in Economics

4. People respond predictably to positive and negative incentives.

8. Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

Preview Question:

"Who would benefit and who would be hurt if the government imposed 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, how many think consumers would be hurt, and how many 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, and what risks do they take? (They want to make profits. However, for every success, there are several failures.)

2. If lower prices make drugs more affordable, why doesn't the federal government mandate lower prices? (Drugs may be more affordable in the short run, but the secondary effects would cause a shortage and deter innovation in developing new drugs. Lower prices create incentives for consumers to buy more and for businesses to produce less.)

3. Who is hurt and who is helped by price controls on drugs? (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.)

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? (There is an incentive to develop and produce more pharmaceuticals because potential profits are higher and higher costs can be covered.)

2. Why will consumers buy more pharmaceuticals at lower prices? (The opportunity cost of buying pharmaceuticals is less at lower prices.)

3. What happens to the price if a price ceiling (maximum legal price) is imposed? (The quantity demanded increases, and the quantity supplied decreases.)

4. Does a price ceiling create a surplus or a shortage? Why? (A shortage because the quantity demanded is greater than the quantity supplied.)

5. Does a price ceiling cause greater shortages in the short run or in the long run? Why? (In the long run because there is less incentive for sellers to develop new and better drugs.)

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. Why have the prices of prescription drugs risen so high?
   * a. The cost of developing drugs has risen.
   b. Pharmaceutical companies are greedier than other companies.
   c. Price ceilings have created incentives to raise prices.
   d. All of the above have occurred.

Are prescription drug prices too high?

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. Why have the prices of prescription drugs risen so high?

   a. The cost of developing drugs has risen.
   b. Pharmaceutical companies are greedier than other companies.
   c. Price ceilings have created incentives to raise prices.
   d. All of the above have occurred.

Clip 7: Subsidized flood insurance

Length: 6:01

Concepts Illustrated:

Incentives
Secondary effects
Subsidies

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.

Voluntary National Content Standards in Economics

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

4. People respond predictably to positive and negative incentives.

17. Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Preview Question:

"Why would people want to own homes where the dangers from hurricanes and floods are very high?"

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

- *People respond to incentives in predictable ways.*
- *Offering a reward for taking actions, even somewhat risky actions, will influence the choices of some individuals.*

Discussion and Analysis Questions:

1. Why are private insurance companies unwilling to provide good rates to insure oceanfront properties? (Since the risks are very high, private insurance companies would have to charge very high premiums to insure such properties. Many would be unwilling to offer such policies at all due to the high risks involved.)

2. If the owners of oceanfront property were unable to obtain insurance, would they be able to obtain a mortgage to buy oceanfront property? (No. Lenders would be unwilling to provide such loans because, without insurance, the risks would be too high.)

3. How does the federal government provide an incentive for people to purchase oceanfront properties? (The federal government provides low-cost national home insurance that covers losses up to $250,000.)

4. 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? (Some high-risk takers might still be willing to own oceanfront property; however, economists would argue that most potential owners would not buy oceanfront property.)

5. 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? (Providing such insurance would reduce the cost of drunk driving. People would be rewarded for driving drunk and more people would do so.)

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.)

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.

Subsidized flood insurance

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.

Clip 8: Politics, economics, and farm subsidies

DVD Clip: Farm Subsidies
Length: 4:45

Concepts Illustrated:
Incentives
Subsidies

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.

Voluntary National Content Standards in Economics

3. Different methods can be used to allocate goods and services. People, acting individually or collectively through government, must choose which methods to use to allocate different kinds of goods and services.

4. People respond predictably to positive and negative incentives.

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

17. Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Preview Question:

"Should we use subsidies to keep some farmers in business?"

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

- *People respond to incentives in predictable ways.*
- *Business owners, like people in other walks of life, often seek ways to reduce competition.*
- *Market systems use profit as the reward to running a successful business.*
- *Market systems use losses as a way to make producers more efficient.*

Discussion and Analysis Questions:

1. John Stossel asserts that Fred and Larry Starrh are "welfare queens." What do you suppose Stossel means by that? (The term "welfare queen" refers to an individual who has a good income but still collects a welfare check intended to help the poor. Fred and Larry Starrh collect large agricultural subsidies intended to help small farmers stay in business. They operate a large farm that collected $3.5 million dollars in subsidies over seven years.)

2. What usually happens to businesses if they can't earn a profit? (They face losses and may go out of business; Woolworth and TWA are examples.)

3. Are most agricultural products subsidized? (No. Lettuce, peas, potatoes, tomatoes, and many other crops are not subsidized.)

4. Why do Fred and Larry Starrh say that subsidies are necessary? (If the government didn't provide subsidies, some farms would face losses and go out of business.)

5. What would happen if some farms went out of business? Would Americans still have a sufficient food supply? (Yes. Only a few agricultural products have subsidies. Also, we could find the same products from other sources including imports.)

6. Who would be hurt if less efficient farmers went out of business? (Less efficient farmers would be hurt.)

7. Who would benefit if less efficient farmers went out of business? (Consumers would pay lower prices for some agricultural products. Taxpayers would save billions of dollars that are currently spent on farm subsidies.)

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?

Ask:

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 an a large supply 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.

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. Who is helped by farm subsidies?
   * a. Farmers who receive them.
   b. Taxpayers who pay them .
   c Consumers.
   d. Importers.

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. Who is helped by farm subsidies?

   a. Farmers who receive them.
   b. Taxpayers who pay them .
   c Consumers.
   d. Importers.

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

Length: 4:54

Concepts Illustrated:

Competition
Costs
Entrepreneurship

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, which were in situations similar to Wal-Mart.

Voluntary National Content Standards in Economics

9. Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure.

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? (Consumers buy from Wal-Mart because of the price and quality of their goods. No one forces them to shop there. If they could conveniently find lower prices and/or higher quality elsewhere, they would shop elsewhere. An exception might be if Wal-Mart were the only store in town. However, even then other stores could come in and compete if Wal-Mart had high prices and low quality.)

2. Why do people work at Wal-Mart? Does Wal-Mart take advantage of its employees? (Wal-Mart employees work there because they believe it is their best employment opportunity. If Wal-Mart took advantage of its workers, they could work elsewhere.)

3. Who is helped and who is hurt when local government imposes regulations that prohibit the entry of Wal-Mart into a community? (Consumers and potential employees are hurt. They have fewer options. Potential suppliers are hurt. Competing businesses are helped. Some employees of these businesses may be helped as well as unions that represent those employees. Consumers may also have fewer choices because other stores are built near Wal-Marts.)

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.

Multiple-Choice Questions:

1. 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.

2. 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.

Wal-Mart, competition, and cost control

Multiple-Choice Questions:

1. 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.
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2. 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
Entrepreneurship
Poverty

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.

Voluntary National Content Standards in Economics

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure

Preview Question:

"Are high school students interested in earning money? Do you think students in tough, big-city schools would be interested in earning money?"

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

- *People respond to incentives in predictable ways.*
- *Earning money is an incentive to nearly everyone.*
- *People in poverty are often more willing than wealthier people to take chances in order to earn more income.*

Discussion and Analysis Questions:

1. What did Steve Mariotti's students want most to learn from him? (They were most interested in learning about how to earn money.)

2. Why might people in poverty be more willing to take risks to earn money? (People in poverty have more to gain. They may be more willing to accept uncertainty and take risks.)

3. What do we call someone who is willing to take the risks of organizing productive resources in order to produce a good or service in hopes of earning a profit? (An entrepreneur)

4. According to David Kelley, who needs capitalism the most? Why? (People at the bottom need capitalism the most. Capitalism is a system that provides opportunities to be successful in business.)

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.

Multiple-Choice Questions:

1. What do we call someone who is willing to take the risks of organizing productive resources in order to produce a good or service in hopes of earning a profit?
   a. A consumer.
   * b. An entrepreneur.
   c. A saver.
   d. An investor.

2. What type of economic system is most likely to provide maximum opportunities for people in poverty?
   a. Command economy.
   b. Traditional economy.
   c Socialist economy.
   * d. Market economy.

Poverty and entrepreneurship

Multiple-Choice Questions:

1. What do we call someone who is willing to take the risks of organizing productive resources in order to produce a good or service in hopes of earning a profit?

   a. A consumer.
   * b. An entrepreneur.
   c. A saver.
   d. An investor.

2. What type of economic system is most likely to provide maximum opportunities for people in poverty?

   a. Command economy.
   b. Traditional economy.
   c Socialist economy.
   * d. Market economy.

Poverty and entrepreneurship

Are You an Entrepreneur?

Read each statement on the left and place an "X" in the column that reflects whether you agree or disagree with the statement and how strongly you agree or disagree. 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:

Discrimination
Human capital
Labor markets
Productivity
Wage gap

Description:

On the surface the earnings difference between men and women appears to be wage discrimination. Women currently earn 78.5 percent of men's wages. Martha Burk, chairwoman 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.

Voluntary National Content Standards in Economics

13. Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

Preview Question:

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

Take a poll of the students, and ask a few students to defend their position.

Discussion and Analysis Questions:

1. Is the earnings gap between men and women the result of wage discrimination? Why or why not? (People who believe it is say that because women earn less than men on average, it is an example of wage discrimination. Others say that men have more experience, work in more dangerous jobs, work longer hours, and commute for longer distances. They maintain women are paid less because of the choice they make.)

2. What determines whether a business hires an individual? (A business hires someone if that person adds to the business's profits. If the revenue produced by the person exceeds his or her salary, the individual will be hired. In economic terms the marginal revenue product of the worker must be greater than the wage. This means if you improve your productivity and value to an employer, you will be paid more.)

3. Are governments or private markets more likely to discriminate against women or minorities? (Throughout history governments have discriminated more than markets because government can enforce discrimination with force. In business the desire to earn a profit encourages acceptance of all customers regardless of race, religion, or gender. Also, by hiring the most productive workers, businesses lower costs, which increases profits. Because of competition, businesses that discriminate and hire less productive workers will be hurt in the marketplace. Other businesses that do not discriminate will have the best workers.)

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.

Multiple-Choice Questions:

1. 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.

2. Which of the following is an example of human capital?
   a. Machinery.
   b. Buildings.
   c. Money.
   * d. Education.

Wage discrimination

Multiple-Choice Questions:

1. 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.

2. Which of the following is an example of human capital?

   a. Machinery.
   b. Buildings.
   c. Money.
   d. Education.

Clip 12: Child labor laws

DVD Clip: Underage Bat Boy

Length: 2:37

Concepts Illustrated:

Income

Regulation of labor markets

Secondary effects

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, Georgia, and an underage batboy working past 7:00 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.

Voluntary National Content Standards in Economics

4. People respond predictably to positive and negative incentives.

16. There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

17. Costs of government policies sometimes exceed benefits. This may occur because of: incentives facing voters; government officials and government employees; actions by special interest groups that can impose costs on the general public; or the pursuit of social goals other than economic efficiency.

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. Why was the batboy in Georgia fired from his job? (He was working as a batboy at a baseball game later than 7:00 p.m. This was a violation of federal child labor laws.)

2. Do the child labor laws apply equally to all young people? (No. Some categories of child workers such as child actors and farm workers are exempt.)

3. Like many other employers, Wendy's will not hire young people under the age of 16. Why do you think this is the case? (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.)

4. Why do you think some groups favor the current child labor laws? (Some groups might wish that young teenagers would spend more time studying or being with their families. They might fear that some employers would take advantage of them or place them in harsh working conditions.)

5. Why do you think some groups are opposed to the current child labor laws? (Government regulations are a blunt tool. They cannot cover all situations in a sensible manner. Parents and teenagers know a lot about the local job conditions for young people and could be trusted to make their own choices.)

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.

He 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.)

Multiple-Choice Questions:

1. What government agency regulates child labor in the United States?
   a. Federal Department of Union and Worker Affairs.
   b. Environmental Protection Agency.
   c. U.S. Bureau of Wages and Hours .
   * d. U.S. Department of Labor .

2. According to the U.S. Department of Labor, how late can a 15-year-old work during the school year?
   a. Until 6:00 p.m.
   * b. Until 7:00 p.m.
   c Until 8:00 p.m.
   d. Until 9:00 p.m.

Child labor laws

Multiple-Choice Questions:

1. What government agency regulates child labor in the United States?

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   b. Until 7:00 p.m.
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   d. Until 9:00 p.m.

Child labor laws

Jake and Adell Look for a Job

Read the case study and answer the Questions for Discussion.

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.

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The federal government prevents young people from working in such jobs 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.)

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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 U.N.

Length: 3:02

Concepts Illustrated:

Economic growth
Income transfers
Investment
Poverty
Wealth creation

Description:

After Ted Turner announced he was giving one billion dollars to U.N. charities, the media applauded his actions. T.J. Rogers, 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.

Voluntary National Content Standards in Economics

15. Investment in factories, machinery, new technology, and the health, education, and training of people can raise future standards of living.

Preview Question:

"Is it better to give or to invest?"

Ask for a show of hands after explaining the difference. Giving is providing donations to nonprofit charitable organizations while investing is expanding a business by adding new buildings, equipment, and employees.

Discussion and Analysis Questions:

1. Compare the effects of giving to the effects of investing. (Giving can help people in need and also can increase employment in nonprofit organizations. Giving can transfer wealth from richer people to poorer people, but it does not create wealth. Giving is a zero-sum game. Investing creates wealth. It increases productivity and production. It creates jobs and higher incomes which reduces poverty.)

2. Would the United States be better off if there were less investment and more charitable giving and higher taxes on the rich to pay for more government programs to aid the poor? (Charity and government aid can help the poor, but investment is the key to economic growth. Economic growth has been the most effective anti-poverty program. Another problem with charity and government transfer programs is that some of the money pays for people to administer the programs rather than going directly to the poor.)

3. Why does investment create wealth? (Investment in capital [goods used to produce other goods] improves productivity. When people are more productive, they can produce more goods and services with the same scarce resources or the same amount of goods and services with fewer resources. This frees up resources for other uses. The increased production increases wealth by increasing employment and the incomes and assets of the owners or the stockholders of the business. Investment is the key to economic growth, and economic growth is wealth creation.)

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, the 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.

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 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.

Investment versus giving

Multiple-Choice Questions:

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   c. entrepreneurs seeking profit will have little incentive to undertake such projects.
   d. both a and b are correct.

Clip 14: Is making money good or bad?

Length: 1:55

Concepts Illustrated:

Economic growth
Role of profits and losses
Wealth creation

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.

Voluntary National Content Standards in Economics

14. Entrepreneurs are people who take the risks of organizing productive resources to make goods and services. Profit is an important incentive that leads entrepreneurs to accept the risks of business failure

Preview Question:

"India's first Prime Minister, Jawaharlal Nehru, said, 'Never talk to me about profit. It is a dirty word.' Do you agree or disagree with Mr. Nehru?"

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

- *Market economies use profit as the reward to businesspeople who produce the goods and services we desire.*
- *Yet profits often seem to be associated with selfishness and greed.*

Discussion and Analysis Questions:

1. Who is T.J. Rodgers? (He is the CEO of Cypress Semiconductor. This is a business he started from nothing which now employees 2,500 employees.)

2. In what way is Mr. Rodgers an entrepreneur? (He turned a small business into a successful large company. He had to work hard and take risks to make this a success.)

3. Why might some people think Mr. Rodgers is greedy? (He lives very well. He has a $1,000,000 home. He seems ruthless about earning profits. He once fired hundreds of employees to keep his business profitable.)

4. Why do you suppose Mr. Rodgers has been able to earn profits in his business? (He must run an efficient business and provide goods and services that his customers want to purchase. After all, there are many competitors in the computer industry from which consumers can choose.)

5. Why does Mr. Rodgers think he is a "good guy?" (His company provides thousands of jobs. These jobs allow people to buy cars, go to school, and retire. His company must also provide its customers with a good product or else they would not do business with him.)

6. It would be easy enough for Mr. Rodgers to retire but he doesn't. He keeps on working 15-hour days. Do you think that our society is better off with him remaining at work? (While this is a judgment call, it does appear that Mr. Rodgers does much good. His business employs thousands of people. It provides these jobs by offering customers goods and services they wish to purchase.)

Extension Activity: Profits and Efficiency

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

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.)

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, it is because
   a. producers value the goods or services being produced.
   b. regulations are carefully followed.
   * c. consumers value the goods or services being produced.
   d. businesspeople have figured out how to cheat consumers.

Is making money good or bad?

Multiple-Choice Questions:

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Is making money good or bad?

Read and answer the Questions for Discussion.

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Clip 15: Poverty in the United States

Length: 3:05

Concepts Illustrated:
Distribution of income
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 are often cited do not include such items as sales commissions, retirement contributions, and medical insurance. When these items are included, compensation has increased 20 percent instead of staying flat or going down, as some suggest. Jim Hightower of Hightower Radio says poor people are being left behind and suggests that John visit 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 United States is nothing like poverty in other countries. Most of the poorest U.S. citizens have adequate housing and even own items such as VCRs, microwaves, refrigerators, and cable TV.

Voluntary National Content Standards in Economics

13. Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

16. There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

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. Are the rich getting richer and the poor getting poorer? (Jim Hightower believes this is true, and government statistics show the gap between the richest 20 percent of the population and the poorest 20 percent of the population is increasing. However, these figures do not count sales commissions, retirement contributions, and medical payments. In fact, economic growth more than any other program reduces poverty.)

2. How is poverty in the United States different from poverty in nations in Africa, Latin America, and Asia? (Poor people in the United States have many conveniences [e.g., color televisions, microwaves, and cars] that would be considered luxuries in other countries.)

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 United States is a less serious problem? Why or why not? (This is an opinion question, but even though poverty may not be as severe in the United States as in other countries, poor people are much worse off than rich people. The real question is what programs alleviate poverty most effectively. Which government transfer programs are most effective, and which ones are ineffective? How can the United States create long-term economic growth that benefits everyone including the poor?)

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
GDP per head	$35,200	$32,520	$1,430	$6,150	$470
Life expect.--men	74.3 yrs.	77.9 yrs.	66.7 yrs.	70.4 yrs.	63.2 yrs.
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
Computers per 100 population	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.)

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. 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 derived from government transfer payments.

Poverty in the United States

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Clip 16: School choice

Length : 3:40

Concepts Illustrated:

Competition
Education
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.

Voluntary National Content Standards in Economics

9. Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

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. Why do many politicians in Washington, D.C., send their children to private schools? (They want their children to have a good education.)

2. The suggestion has often been made that tax dollars should follow children to whatever school the parents wish them to attend--private or public. This is called a voucher system. This change would bring competition into public schooling. In what way might competition help strengthen the schools? (Parents would be allowed to send their children to any school that would accept the voucher. Schools that could not attract enough parents would have to find ways to improve or go out of business. As it is today, few failing public schools ever close.)

3. Why are public schools often regarded as a government-controlled monopoly? (Public schools are the dominant provider of K-12 education. In many places, they are the only provider. Public schools may not charge tuition. So for many low-income families, public schools are the only provider.)

4. Does competition generally serve the interests of consumers? (Yes. Market economies use competition as the way to make sure that producers provide the best goods and services at the lowest possible price.)

5. How strong is competition in the market for elementary and secondary education in the United States? (Competition among the public schools is weak.)

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, 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.

Multiple-Choice Questions:

1. Strong competition in a market generally leads to
   a. 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.

2. Public schools are regarded by economists as a market with
   * a. little competition.
   b. some competition.
   c. much competition.
   d. a great deal of competition.

School choice

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