

# The Economic Way of Thinking

## LESSON DESCRIPTION AND BACKGROUND

This lesson introduces a process of reasoning that is often referred to as the economic way of thinking. The process is summarized in The Handy Dandy Guide, a six-point primer on economic reasoning. Using the Handy Dandy Guide, the students analyze two situations.

Lesson 2 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

## ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Incentives
- Opportunity cost
- Voluntary exchange

## OBJECTIVES

At the end of this lesson, the student will be able to:

- List and explain the basic principles of economic reasoning.
- Use economic reasoning to explain how families can use money-management skills to improve their standards of living.
- Use economic reasoning to explain why people who have more education usually gain more opportunities and higher incomes in the future.

## TIME REQUIRED

One 45-minute class period

## MATERIALS

- A transparency of **Visual 2.1**
- A copy for each student of **Exercise 2.1** and **2.2** from the *Student Workbook*

## ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more visit <http://fffl.councilforeconed.org/9-12/lesson2>.

## PROCEDURE

1. Explain to the students that this lesson is designed to teach them how to use economic reasoning in their everyday lives. To achieve this, they will use a tool called The Handy Dandy Guide.
2. Display **Visual 2.1**. It presents The Handy Dandy Guide—a set of statements that outline basic principles of economic reasoning. Go over each of the six statements, providing brief clarifications as necessary. Tell the students that, for further clarification, they will engage in a reading exercise.
3. Give each student a copy of **Exercise 2.1** from the *Student Workbook*. Ask the students to read this exercise and answer the questions posed at the end. This reading may also be used as a homework assignment.
4. When the students have completed **Exercise 2.1**, review and discuss the answers.
  - a. What is an opportunity cost? (***It is the best alternative that a person gives up to get something. The opportunity cost is the next-best option to the one actually chosen.***)
  - b. Why is opportunity cost important when you make choices? (***Everything has a cost. By considering costs, you make better economic decisions.***)
  - c. Why do people want to be wealthy? (***Reasons vary: to buy more goods and services, to gain more freedom of choice, to gain economic security, to enjoy a more satisfying life, to use wealth in helping others, etc.***)

- d. Why do the choices we make now matter in the future? (**Taking advantage of current economic opportunities can improve your life. Choices you make now can increase or decrease your future wealth.**)
- e. What incentives encourage people to save money? (**Earning interest, providing for future needs, etc.**)
- f. Why are the Robinsons wealthier than the Murrays? (**They made better decisions regarding the accumulation of wealth.**)
5. Form groups of 3-4 students and give each student a copy of **Exercise 2.2** from the *Student Workbook*. Tell the students that they are going to participate in an exercise designed to solve the following mystery: If school is so boring, why do most students stay in school?
6. Ask each group to solve The Boring School Mystery by answering “D” or “S” on the checklist of items that relate to incentives to “drop out of school” (D) or “stay in school” (S), and the eight questions that follow.
7. Ask the students in each group to appoint a spokesperson to report their responses to the class when their group is called upon.
8. When the groups have had time to complete the exercise, call on the groups to answer the following questions:
- Which items in the checklist state reasons for staying in school? (**Statements 2,3,6,7,8.**)
  - Which of these items are the most important? (**Over time, the increased income and other benefits associated with higher levels of educational achievement constitute a very important benefit associated with staying in school.**)
  - Which items in the checklist state reasons for dropping out of school? (**Statements 1,4,5.**)
9. Review and discuss questions a-h:
- What is the cost of staying in school? (**Lost income from work, inability to pursue activities other than school, loss of personal freedom, need to spend time doing homework, etc.**)
  - What is the cost of dropping out of school? (**Lower future income, limited social contacts, inability to attend college, lost future opportunities, etc.**)
  - What incentives encourage people to stay in school? (**Higher future incomes, a wider range of job opportunities, the opportunity to attend college, expanded social opportunities, etc.**)
  - How does the American economic system encourage people to graduate from high school? (**The U.S. economy presents a wide range of opportunities for employment and entrepreneurial activity. Graduating from high school is a minimum qualification for many of these opportunities. Opportunities for high school dropouts are far more restricted.**)
  - Is going to high school voluntary, or are young people required to go to high school? (**After age 16, in most states, attending high school is voluntary.**)
  - Why do some students choose to drop out of school? (**They must believe that the costs of staying in school are greater than the benefits. They may desire the immediate rewards of income from a job, or freedom, or they may want to be of immediate help to their families.**)
  - Why do most students choose to stay in high school and graduate? (**They must believe that the benefits of staying in school—including higher future income and expanded future opportunities—outweigh the costs of forgone income and restricted personal freedom in the present.**)
  - What are the future consequences of a decision to drop out of school or stay in school? (**Dropping out of school will limit future choices; staying in school will expand them.**)

**CLOSURE**

Conclude the lesson by returning to the mystery posed earlier: If school is so boring, why do most students stay in school? Ask the students if they now have a good answer to this question. How does The Handy Dandy Guide help them to answer this question? ***(The Handy Dandy Guide helps the students describe and explain the incentives that influence people in their decisions about staying in school or dropping out.)***

**ASSESSMENT**

The following 2009 median annual earnings data come from the Bureau of Labor Statistics.

Median income of:

- A High School Dropout: \$23,608
- A High School Graduate: \$32,552
- A College Graduate: \$53,300

Use The Handy Dandy Guide to explain why median incomes vary by the level of educational attainment, as shown in the list above.

**EXTENSION**

Invite groups of students to write their own mysteries and to use The Handy Dandy Guide to solve them. When the students have accomplished this task, arrange for them to present the mysteries and solutions to the rest of the class.

## The Handy Dandy Guide

1. People choose.
2. All choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences for the future.