

THE ECONOMICS OF ENTREPRENEURSHIP

serving yourself by serving others well



FEE

SUPPLEMENTAL HIGH SCHOOL
ECONOMICS COURSE

THE ECONOMICS OF
ENTREPRENEURSHIP

serving yourself by serving others well

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The Foundation for Economic Education (FEE) is a non-political, non-profit, tax-exempt educational foundation and accepts no taxpayer money. FEE's mission is to inspire, educate and connect future leaders with the economic, ethical and legal principles of a free society.

INTRODUCTION

COURSE OVERVIEW

An entrepreneur is someone who discovers and provides for an unmet need by producing value for others in the community and for themselves. In short, entrepreneurs are both problem solvers and wealth creators. Creating and maintaining a culture that embraces entrepreneurship is critical to the long-term prosperity of our economy and our society. Entrepreneurship is an act of serving one's self through serving others well. We believe that students can increase their chances of success with practical education about entrepreneurship, markets, and the economic way of thinking.

This course is designed to help students discover the value of entrepreneurship and the importance of strong character in a free and civil society. These ready-to-go lessons introduce students to entrepreneurship and the economic way of thinking through a series of carefully selected articles, videos, discussion guides, student handouts, and activities.

GETTING THE MOST FROM THIS COURSE

This course contains a series of eight modules organized around the essential concepts of the economics of entrepreneurship. The modules included in this course are:

1. What is Entrepreneurship?
2. What is the Entrepreneur's Role in Creating Value?
3. How Can Entrepreneurs Use Economics to Make Better Decisions?
4. How Does Trade Create Wealth?
5. What Do Profit and Loss Tell Us?
6. What Institutional Factors Encourage Entrepreneurship?
7. What are the Links between Entrepreneurship, Personal Character, and Civil Society?
8. How Do I Become an Entrepreneur?

Within each module are five stand-alone lessons including readings, videos, discussion guides, comprehension questions, and activities. These 40 lessons can each be used independently, or they can be followed as part of the larger guided learning path set forth by this course.

It is recommended to follow the modules and lessons in the sequence presented. The program can be taught in 30 hours, or it can be expanded to as many as 40 hours for students who elect to conduct optional self-study using the materials found in the "Additional Resources" section provided in each lesson. However, for those interested in a brief survey of the topic, a substantive treatment of the learning objectives and essential concepts can be found in a condensed version of the course. *[Coming Soon – 2015]*

Individual modules, lessons, and activities found in this course are available online at FEE.org/courses.

IS THIS COURSE RIGHT FOR ME?

This course is great for:

- Students interested in starting a business or learning more about the economic way of thinking;
- Teachers seeking to complement learning objectives taught in introductory-level economics, business, history, and civics classes;
- Leaders of youth organizations looking for lessons and activities around entrepreneurship, economics, personal character, and civil society; and
- Parents wanting their students to get the most out of life through making better choices and better understanding the tradeoffs involved with those choices.

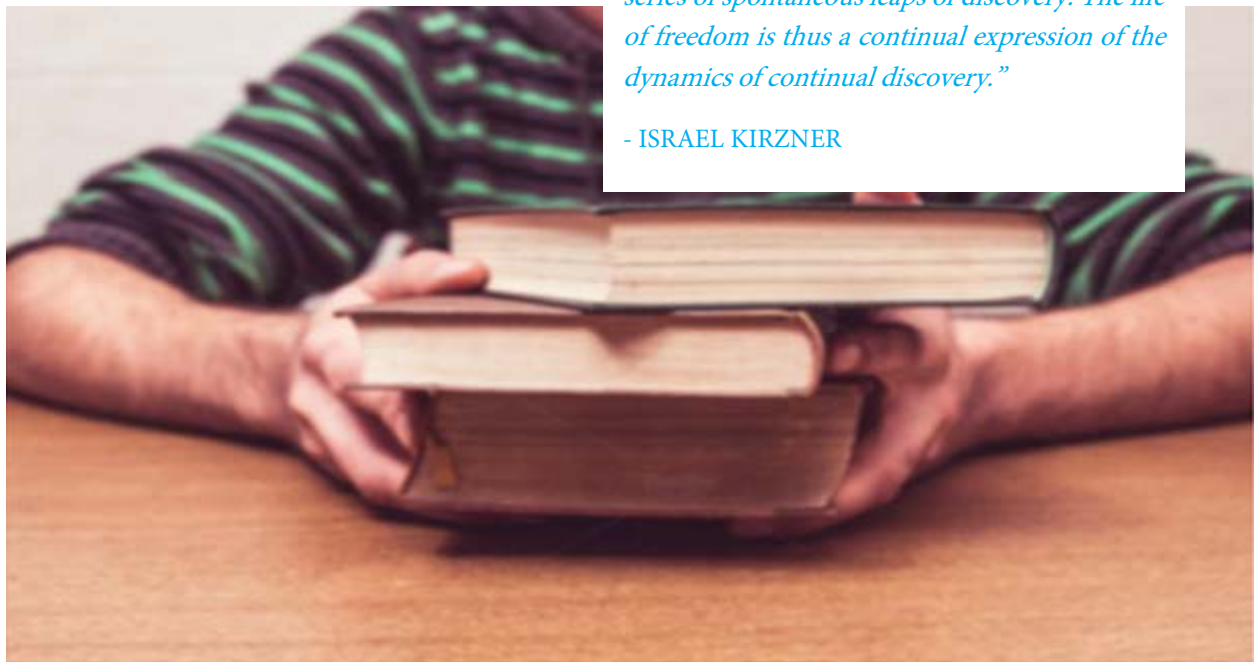
RELATED NATIONAL EDUCATION STANDARDS

The learning objectives addressed in this course are specified at the beginning of each learning module. The learning objectives in this course include and expand beyond the minimum standards put forth by the professional bodies governing national and state educational standards for related content areas. For parents and educators who wish to know how the learning modules in this course relate to the broader economic standards we have included a listing of related National Standards for Economics made available by the [Council for Economic Education](#) at the beginning of each lesson. Additionally, we have provided a list of the Common Core standards related to this course in Appendix B.

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“Life consists, in this sense, of a never-ending series of spontaneous leaps of discovery. The life of freedom is thus a continual expression of the dynamics of continual discovery.”

- ISRAEL KIRZNER



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MODULE 1 – WHAT IS ENTREPRENEURSHIP?

Lesson 1 – The Heroic Entrepreneur

- VIDEO: [Are Entrepreneurs Modern Day Heroes?](#) (Learn Liberty, 2:07 min)
- ACTIVITY: The Entrepreneur Hero Challenge
- VIDEO: [Entrepreneurs Can Change the World](#) (Grasshopper, 2:19 min)
- ARTICLE: [The Entrepreneur on the Heroic Journey](#) by Dwight Lee (FEE.org)

Lesson 2 – Key Traits of an Entrepreneur

- VIDEO: [What is an Entrepreneur?](#) (Entrepreneur Week, 1:55 min)
- ARTICLE: [The 7 Traits of Successful Entrepreneurs](#) (Entrepreneur.com)
- ACTIVITY: Discovering Your Passion
- ACTIVITY: Research A Successful Entrepreneur

Lesson 3 – Discovering an Opportunity, Serving a Need

- VIDEO: [The Entrepreneur](#) (Council for Economic Education, 2:50 min)
- ACTIVITY: Serving Others in Your Community
- VIDEO: [Stossel - Poverty and Entrepreneurship](#) (ABC News, 3:27 min)

Lesson 4 – The Entrepreneurial Society

- VIDEO: [The Three Things Entrepreneurs Do for Our Economy](#) (Kauffman Foundation, 3:20 min)
- ARTICLE: [The History of Entrepreneurship](#) by Ryan Allis (thestartupguide.com)
- VIDEO: [200 Countries, 200 Years, 4 Minutes](#) (BBC, 4:47 min)
- ARTICLE: [Small Business and Entrepreneurship](#) by E.C. Pasour (FEE.org)

Lesson 5 – Entrepreneurship Defined

- ARTICLE: [Entrepreneurship](#) by Russell S. Sobel (econlib.org)
- VIDEO: [Dr. Alexei Marcoux on Defining Entrepreneurship](#) (Center for Ethics and Entrepreneurship, 17:46 min)

MODULE 2 – WHAT IS THE ENTREPRENEUR’S ROLE IN CREATING VALUE?

Lesson 1 – Value is in the Eye of the Beholder

- VIDEO: [Subjective Value](#) (Learn Liberty, 3:50 min)
- ACTIVITY: Myth Busting – Who or What Determines Value?
- ARTICLE: [Subjective Value](#) by Max Borders (FEE.org)
- ACTIVITY: Poem: “Smart” by Shel Silverstein

Lesson 2 – Value Must Be Produced

- VIDEO: [How to Create a Job: Creating Value, Not Just Work](#) (EconFree, 2:16 min)
- ARTICLE: [Creating Jobs versus Creating Value](#) by Steven Horwitz (FEE.org)
- ACTIVITY: Creating Value

Lesson 3 – Creating Value and Serving Others

- ARTICLE: [Demand and Supply](#) by Dwight Lee (FEE.org)
- VIDEO: [Everybody is working for everybody else](#) (The Rational Optimist, 1:55 min)
- ARTICLE: [This Product can Change your Life: The D.Light Story](#) by Simon Keane-Cowell (Architonic)

Lesson 4 – Shareholder vs. Stakeholder Value

- VIDEO: [John Mackey: What is the Purpose of Business?](#) (Institute for Corporate Ethics, 6:21 min)
- ARTICLE: [The social responsibility of business is to increase its profits](#) by Milton Friedman (New York Times Magazine)
- VIDEO: [Shareholders vs. Stakeholders -- Friedman vs. Freeman Debate](#) (Institute for Corporate Ethics, 1:17 min)

Lesson 5 – Economic Growth and the Entrepreneur

- ACTIVITY: The Role of the Entrepreneur in Economic Growth
- ARTICLE: [Entrepreneurship and Economic Growth](#) by Randall Holcombe (mises.org)

MODULE 3 – HOW CAN ENTREPRENEURS USE ECONOMICS TO MAKE BETTER DECISIONS?

Lesson 1 – Scarcity, Choice, Tradeoffs

- ARTICLE: [Scarcity](#) by Russell Shannon (FEE.org)
- VIDEO: [Marshmallow Test](#) (Absa Bank, 1:58 min)
- ACTIVITY: Making Decisions When Planning Your Business

Lesson 2 – Thinking at the Margin

- VIDEO: [Marginal Benefit and Marginal Cost](#) (Mikayla Kutsuris, 1:45 min)
- VIDEO: [Thinking on the Margin](#) by Mario Villarreal-Diaz (Learn Liberty, 4:31 min)
- ARTICLE: [It's the Margin that Counts](#) by Dwight Lee (FEE.org)
- ACTIVITY: Diminishing Marshmallow (Marginal) Utility

Lesson 3 – Opportunity Cost

- VIDEO: [Opportunity Cost](#) (Learn Liberty, 3:56)
- ARTICLE: [Opportunities and Costs](#) by Dwight Lee (FEE.org)
- ACTIVITY: Everyday Costs and Benefits

Lesson 4 – Decision-Making Techniques for Entrepreneurs

- VIDEO: [Tips to Improve the Decision Making Process](#) (CommLab India, 4:48 min)
- ARTICLE: [Decision-Making Techniques and Tools](#) (Business News Daily)
- ACTIVITY: Time to Decide!

Lesson 5 – Using Economics to Make Better Decisions

- ACTIVITY: Find A Better Way

MODULE 4 – HOW DOES TRADE CREATE WEALTH?

Lesson 1 – Gains from Trade

- VIDEO: [Darling, Smoltz: Zack Greinke trade is a "win, win"](#) (CNN, 1:28 min)
- ACTIVITY: The Trading Game

Lesson 2 – Why We Exchange

- VIDEO: [Why Do We Exchange Things?](#) (Learn Liberty, 4:04 min)
- VIDEO: ["Foreigners are our friends"](#) (Learn Liberty, 3:55 min)
- ACTIVITY: It's Valuable to Me!

Lesson 3 – Division of Labor and Specialization

- VIDEO: [Specialization and Trade: Because We Can't Be Good At Everything](#) (Learn Liberty, 2:43 min)
- VIDEO: ["Trade Is Made of Win," Part 1: Wealth Creation](#) (Learn Liberty, 2:46 min)
- ARTICLE: [Comparative Advantage](#) (econlib.org)
- ARTICLE: [Treasure Island: The Power of Trade. Part I. The Seemingly Simple Story of Comparative Advantage](#) (econlib.org)
- ARTICLE: [Treasure Island: The Power of Trade. Part II. How Trade Transforms Our Standard of Living](#) (econlib.org)

Lesson 4 – Competition as Cooperation

- VIDEO: ["Trade Is Made of Win," Part 2: Cooperation](#) (Learn Liberty, 2:43 min)
- ARTICLE: [Competition and Cooperation](#) by Steven Horwitz (FEE.org)
- ACTIVITY: The Puzzle Game
- ARTICLE: [Competition Is Cooperation](#) by Sheldon Richman (FEE.org)

Lesson 5 – Economic Freedom and Prosperity

- VIDEO: [What's So Great about Economic Freedom?](#) (Learn Liberty, 4:25 min)
- ARTICLE: [The Decline in Economic Freedom](#) by James Gwartney, Robert A. Lawson, and Joshua C. Hall (FEE.org)
- VIDEO: [Economic Freedom in 60 Seconds](#) – EconFree (1 min)
- ACTIVITY: [2015 Index of Economic Freedom](#)

MODULE 5 – WHAT DO PROFIT AND LOSS TELL US?

Lesson 1 – Role of Prices

- VIDEO: [What Do Prices “Know” That You Don’t?](#) (Learn Liberty, 4:33 min)
- VIDEO: [The Price System, Part 1: Information](#) by Dan Smith (Learn Liberty, 2:25 min)
- ACTIVITY: Command Economy vs. Free Economy
- ARTICLE/SELF-STUDY: [Economics in One Lesson - How the Price System Works](#) by Henry Hazlitt (FEE.org)

Lesson 2 – How Market Prices Emerge

- ACTIVITY: A Market for Crude Oil

Lesson 3 – The Function of Profits

- VIDEO: [The Price System, Part 2: Profits & Losses](#) by Dan Smith (Learn Liberty, 3:04 min)
- ARTICLE: [Economics in One Lesson - The Function of Profits](#) by Henry Hazlitt (FEE.org)
- ARTICLE: [Letter to a Grandson - Mr. Kent](#) (Free Market Foundation)

Lesson 4 – The Importance of Loss

- ARTICLE: [The Economics of Errant Entrepreneurs](#) by Israel M. Kirzner (FEE.org)
- ARTICLE: [The Importance of Failure](#) by Steven Horwitz (FEE.org)
- ACTIVITY: The Importance of Loss

Lesson 5 – Profits: A Sign of Serving Others Well

- ARTICLE: [He Gains Most Who Serves Best](#) by Paul L. Poirot (FEE.org)
- ARTICLE: [People Before Profits](#) by Walter Williams (FEE.org)
- ACTIVITY: [Coffee Shop Game](#)

MODULE 6 – WHAT INSTITUTIONAL FACTORS ENCOURAGE ENTREPRENEURSHIP?

Lesson 1 – The Marvel of the Market

- VIDEO: [I, Pencil: The Movie](#) (Competitive Enterprise Institute, 6:32 min)
- ARTICLE: [I, Pencil: My Family Tree - Leonard Reed](#) (FEE.org)

Lesson 2 – When Order Emerges

- VIDEO: [Can Order Be Unplanned?](#) (Learn Liberty, 3:26 min)
- ARTICLE: [Cavemen, Money, and Spontaneous Orders](#) by Sandy Ikeda (The Freeman, FEE.org)
- ACTIVITY: Magic of Market Coordination
- VIDEO: [The Beauty of Emergent Order \(excerpt\)](#) (Voice and Exit, 3:24 min)

Lesson 3 - The Rules of the Game

- VIDEO: [Why Does 1% of History have 99% of the Wealth?](#) (Learn Liberty, 3:18 min)
- ARTICLE: [Liberty and Dignity Explain the Modern World](#) by Deidre McCloskey (deirdremccloskey.com)
- ACTIVITY: The Lemonade Tragedy

Lesson 4 – Incentives Matter

- VIDEO: [Incentives Matter](#) (Learn Liberty, 2:15 min)
- ARTICLE: [The Power of Incentives](#) by Dwight Lee (FEE.org)
- ACTIVITY: Candy Cartel

Lesson 5 – Entrepreneurship Stifled

- VIDEO: [Why Can’t Chuck Get His Business off the Ground?](#) (Institute for Justice, 5 min)
- ARTICLE: [Does Occupational Licensing Protect Consumers?](#) (John Hood, FEE.org)
- VIDEO: [Should You Need the Government’s Permission to Work?](#) (Institute for Justice, 5 min)
- ACTIVITY/SELF-STUDY: Burdens of Licensure

MODULE 7 – WHAT ARE THE LINKS BETWEEN ENTREPRENEURSHIP, PERSONAL CHARACTER, AND CIVIL SOCIETY?

Lesson 1 – Virtue and Entrepreneurship

- VIDEO: [Entrepreneurship and Virtue Ethics](#) (Entrepreneurial Ethics Series, 14:15 min)
- ACTIVITY: My Personal Values
- ARTICLE: [Character, Liberty, and Economics](#) by Lawrence W. Reed (FEE.org)

Lesson 2 – Connected by Commerce

- VIDEO: [I, Pencil Extended Commentary: Connectivity](#) (CEI, 3:26 min)
- ACTIVITY: Voluntary Cooperation
- ARTICLE: [Markets and Freedom](#) by Dwight Lee (FEE.org)
- ARTICLE: [Competition and Cooperation](#) by David Boaz (FEE.org)

Lesson 3 – Markets and Morality

- VIDEO: [Free Will and Human Dignity: A Love Story](#) (Learn Liberty, 1:49min)
- ARTICLE: [Markets and Morality](#) by Peter J. Hill (FEE.org)
- ARTICLE: [From the Sixth Grade to a Harvard Degree](#) by Lawrence W. Reed (FEE.org)

Lesson 4 – Individualism & Civil Society

- VIDEO: [Equality and Respect: How I'm Equal to Hugh Jackman](#) (Learn Liberty, 3 min)
- ARTICLE: [The Individual in Society](#) by Ludwig Von Mises (FEE.org)
- VIDEO: [Individualism vs Collectivism](#) by Learn Liberty (3:16 min)
- ACTIVITY: Who Am I?
- ARTICLE: [The Individual and Society](#) by Arthur Foulkes (FEE.org)

Lesson 5 – Business Ethics

- VIDEO: [Business Ethics on the Job](#) (Human Relations Media, 2:25 min)
- ARTICLE: [The Importance of Being Ethical](#) (Inc.com)
- ACTIVITY: What Would You Do?
- ARTICLE: [Lessons from an Entrepreneur](#) by David Labanad (FEE.org)

MODULE 8 – HOW DO I BECOME AN ENTREPRENEUR?

Lesson 1 – Getting Started

- VIDEO: [Take the Risk, Be an Entrepreneur](#) (EconFree, 1:12 min)
- VIDEO: [Go Be an Entrepreneur](#) (Kauffman Sketchbook, 3:38 min)
- ACTIVITY: Generating Business Ideas

Lesson 2 – Developing Your Business Model

- ACTIVITY: Business Model Basics
- VIDEO: [Business Model Canvas Explained](#) (Strategyzer, 2:20 min)
- ACTIVITY: Young Entrepreneur's Business Model Canvas

Lesson 3 – Advice for Young Entrepreneurs

- VIDEO: [Advice for Young Entrepreneurs: How to Be Taken Seriously](#) (PHP Agency, 3:30 min)
- VIDEO: [What Leads to Success?](#) (TED, 3:46 min)
- ARTICLE: [7 Tips to Guide Young Entrepreneurs](#) by John Pilmer (entrepreneur.com)
- VIDEO: [Kauffman Sketchbook - "Visionaries"](#) (Kauffman Foundation, 3:12 min)

Lesson 4 – Learning From Failure

- VIDEO: [Steve Jobs On Failure](#) (SCVHA, 1:42 min)
- VIDEO: [Failure is Part of Success](#) (TEDx, 6:54 min)
- VIDEO: [Why Failing Well is the Key to Success](#) (ReasonTV, 13:22 min)

Lesson 5 – Tools for Building Your Business

- ACTIVITY: Presenting Your Business Model Canvas
- ACTIVITY: Business Tools and Resources

MODULE 1 – WHAT IS ENTREPRENEURSHIP?

“The task of the entrepreneur is to select from the multitude of technologically feasible projects those which will satisfy the most urgent of the not yet satisfied needs of the public.”

– LUDWIG VON MISES, [PLANNING FOR FREEDOM](#)

Overview:

Most people identify an entrepreneur as someone who creates a business and assumes the risk of doing so in return for profits. While this description is correct, more broadly it can be said that entrepreneurs create value by moving resources into more productive uses. They do this through innovating new products or processes to replace old ones and by discovering unnoticed opportunities to profit and acting on those opportunities. This series of lessons introduces students to the concept of entrepreneurship as understood by several leading economists. Students will explore the key traits of an entrepreneur and discuss the entrepreneur’s role in society. Let’s begin our journey in learning how entrepreneurs change the world!

Concepts and Terms:

- Character
- Creative Destruction
- Entrepreneur
- Incentive
- Innovation
- Invisible Hand
- Risk
- Taxation
- Virtue
- Wealth

Objectives:

Students will be able to...

- Define entrepreneurship
- Identify examples of entrepreneurship
- Articulate the traits of an entrepreneur
- Describe the importance of the entrepreneur’s role in society
- Provide examples of how to serve needs in their own community through entrepreneurial action
- Recognize opportunities to be entrepreneurial in their daily lives

Related Standards:

STANDARD 14: ENTREPRENEURSHIP – Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

LESSON 1 – THE HEROIC ENTREPRENEUR

Description:

Many heroes are ordinary people who find themselves in situations in which they are called to act heroically. Heroes often “save the day” by meeting an urgent need. They don’t wait around for someone else to solve the problem, nor do they put the burden on others. Heroes take charge and make a positive impact. Some people argue that entrepreneurs are modern-day heroes.

In this lesson, students will watch and discuss a brief video in which Donna Matias suggests that entrepreneurs are heroes who should be celebrated. Students will then complete an activity during which they identify and rate entrepreneurs according to their heroic virtues. Finally, students will read the article about entrepreneurs on the heroic journey.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None



1.1.A – Watch and discuss the following video using the questions below to guide your discussion [20 min]:

VIDEO: [Are Entrepreneurs Modern Day Heroes?](#) (Learn Liberty, 2:07 min)

“Law professor Donna Matias defines an entrepreneur as someone able to identify and provide for an unmet need. In short, entrepreneurs are both problem solvers and wealth creators. Extremely successful entrepreneurs, therefore, are not evil. Rather, they are modern day heroes who have managed to effectively fulfill the needs of their consumers.”

DISCUSSION QUESTIONS: Are Entrepreneurs Modern Day Heroes?

Teacher Tip: Ask students to brainstorm a list of Hero Character Traits. Make a list of student responses. Be sure to include the traits below in your discussion.

1. *What are the personal qualities or character traits of a hero?*

- a. Character is the nature of an individual's moral personality expressed by his or her behavior and actions.
- b. Traits commonly associated with heroes include:
 - Courage
 - Bravery
 - Strong Leadership
 - Vision
 - Wisdom
 - Honesty
 - Principled Belief
 - Integrity to stand up for what is right
 - Persistence in the face of challenge
 - Ability to Inspire

2. *What is an entrepreneur?*

- a. An entrepreneur is someone who discovers and provides for an unmet need by producing value for others in the community and for themselves.
- b. Entrepreneurs are innovators and problem solvers.

3. *Do you think entrepreneurs are heroes? Why or why not?*

- a. Professor Matias believes entrepreneurs should be praised as heroes.
- b. Being a successful entrepreneur means meeting needs of people in your community.

4. *What kinds of things do entrepreneurs do to meet the needs of people in the community? How do entrepreneurs make society better off?*

- a. Entrepreneurs create wealth and they create jobs.
- b. They create the things that people want and need.
- c. Successful entrepreneurs also create other value-producing jobs.
- d. Entrepreneurship is key for economic growth.
- e. According to Professor Matias, entrepreneurial societies are also more open to progress and innovation.

5. *Can you think of a few examples of entrepreneurs? Do you have a favorite entrepreneur?*

- a. Entrepreneurs started many well-known companies:
 - Fred Smith (FedEx)
 - Michael Dell (Dell)
 - Larry Page and Sergey Brin (Google)
 - Bill Gates (Microsoft)
 - Mark Zuckerberg (Facebook)
- b. Don't forget about the small businesses too:
 - The man or woman who started the local clothing drive or food bank is an entrepreneur.
 - The local barber, accountant, piano teacher, mechanic, or math tutor are also entrepreneurs.

6. *What does it mean to create wealth?*

- a. Wealth is a measure of the value of economic goods. Wealth does not exist naturally in the world. All of the goods we want and need must be created, produced, arranged, packaged, harvested, or gathered before they can be enjoyed.
- b. The process of arranging the resources to satisfy people's wants and needs is value creation. Entrepreneurs play a key role in the value creation process.

1.1.B – Complete the following activity and be prepared to share your results [20 min]:

ACTIVITY: The Entrepreneur Hero Challenge

For this activity, take 5 minutes to select and rate an entrepreneur according to his or her heroic virtues. Spend 15 minutes discussing your results with others in your group.

1. Write the name of an entrepreneur (or a business started by an entrepreneur) that you consider to be a hero? What did this person do to change the world for the better?

2. Below is a table listing certain characteristics that heroes are commonly thought to possess. For each heroic virtue, score the entrepreneur you selected using a scale of 1-10 (1 being the lowest and 10 being the highest). Be prepared to explain why you chose the score you selected.

Heroic Virtues	(Score 1 – 10)
1. Bravery and Courage	
2. Confidence	
3. Honesty and Integrity	
4. Passion and Inspiration	
5. Productive Purpose	
6. Creativity and Vision (thinking “outside the box”)	
7. Wisdom and Good Judgment	
8. Optimism	
9. Leadership	
10. Perseverance and Persistence (never give up)	
Total Hero Score	

3. Now look at your answers and find the Total Hero Score for the entrepreneur selected. How heroic is he or she? In what areas did he or she score very high? Low?

Total Hero Score

- 100-90: Entrepreneurial Hero!
- 89-75: Hero in the Making
- 74-60: Potential Hero
- 59 – 0: Keep At It

Take a few minutes to discuss with the group.

Teacher Tip: Ask students to raise their hand if their Hero Score is between 75 -100 and ask these students to share why they scored their entrepreneur the way they did.

1.1.C – Watch the following video about how entrepreneurs like you can change the world (students will learn more about the specifics of how to become entrepreneurs in following lessons throughout this course) [5 min]:

VIDEO: [Entrepreneurs Can Change the World](#) (Grasshopper, 2:19 min)

“This animation concluded [Cameron Herold's TedX Edmonton 2009 talk](#). Bored in school, failing classes, at odds with peers: This child might be an entrepreneur, says Cameron Herold. In his talk, he makes the case for parenting and education that helps would-be entrepreneurs flourish -- as kids and as adults.” (Filmed at TEDxEdmonton.)

1.1.D – Self-Study: Familiarize yourself with the vocabulary words below and read the following article. Use the questions below to guide your reading [15 min]:

Teacher Tip: Teachers should assign Self-Study reading 1.1.D at the end of class.

ARTICLE: [The Entrepreneur on the Heroic Journey](#) by Dwight Lee and Candace Allen (FEE.org) – “In our modern world, the wealth creators—the entrepreneurs—actually travel the heroic path and are every bit as bold and daring as the mythical heroes who fought dragons and overcame evil. With conventional virtues, the entrepreneur travels through the three stages of the classic journey of the hero to achieve unconventional outcomes and should serve as a model of inspiration and guidance for others who follow.”

VOCABULARY:

- Benefactor
- Government Subsidy
- Government Obstacles
- Incentive
- Integrity
- Invisible Hand
- Sacrifice
- Status Quo
- Taxation
- Unconventional
- Virtue
- Wealth Creation

DISCUSSION QUESTIONS: The Entrepreneur on the Heroic Journey

1. *Why do these authors think entrepreneurs are heroic figures?*

- Entrepreneurs are visionaries responsible for “...transforming one generation’s dreams into the next generation’s necessities.” “We are better off because entrepreneurs have been willing to attempt what others knew couldn’t be done, and then persist in the face of adversity.”
- Entrepreneurs are not afraid of “departure from the familiar and comfortable into the unknown, risking failure and loss for some greater purpose or idea.”
- Entrepreneurs are “characterized by energy, vision, and bold determination to push into the unknown.”
- Once entrepreneurs have begun their journey it will be filled with difficulties and challenges. The entrepreneur must find strength and courage to overcome these challenges and must be “resilient in the face of mistakes or failure.”
- Finally, entrepreneurs create value for others. They “return to the community with something new or better than what was there before.”
- Profits are the entrepreneur’s “reward for increasing benefits to individuals in society.”

2. *Joseph Campbell, an expert on world mythology, proposes “...every society celebrates heroes, and in doing so, honors the past, energizes the present, and shapes the future.” Do you think we should celebrate entrepreneurs as heroes?*

- a. The advances we see in society are the result of entrepreneurial achievement.
- b. The entrepreneur’s reason for starting a business may be a desire to become rich and famous, improve the community, or tackle an interesting challenge. No matter their reason, if they are successful at meeting a need and serving others well, the entrepreneur makes the world a better place.
- c. These authors conclude by offering, “...societies are shaped by the ideals they embrace. If one of our children or grandchildren wanted to emulate an entrepreneur who heroically struggled in uncharted territory and ultimately changed the world for the better, we would be proud.”

Lesson Recap

- Entrepreneurs are:
 - ✓ Modern-day heroes who should be celebrated
 - ✓ Able to discover and provide for an unmet need by producing value for themselves and others in the community
 - ✓ Innovators and problem solvers
 - ✓ Creators of wealth and jobs
 - ✓ Responsible for economic and social progress
 - ✓ Not afraid to “depart from the familiar”
 - ✓ Resilient in the face of challenges
- Societies are shaped by the ideals they embrace. If we think entrepreneurship is a good thing, we should encourage more entrepreneurship by celebrating entrepreneurs as modern-day heroes.

A prosperous future for us all depends on entrepreneurs like you!

Additional Resources

VIDEO: [Walter Williams: The Entrepreneur As American Hero](#) (Center for Constructive Alternatives, 50 min)

The Entrepreneur As American Hero with Walter E. Williams, John M. Olin Distinguished Professor of Economics, George Mason University. These remarks were delivered on February 6, 2005, on the Hillsdale College campus, during a seminar on "Entrepreneurship and the Spirit of America," co-sponsored by the Center for Constructive Alternatives and the Ludwig von Mises Lecture Series. [Walter Williams: The Entrepreneur As American Hero \[Full Text\]](#)

LESSON 2 – KEY TRAITS OF AN ENTREPRENEUR

Description:

As you study the Economics of Entrepreneurship, begin to think about the close relationship between personal character, entrepreneurship, and a free society. In future lessons we will explain in more detail how all three are closely associated with one another. A free society both demands and reinforces strong character. Entrepreneurs require economic freedom to create value for themselves and for society.

In this lesson, students will watch a video in which a panel of entrepreneurs discuss the traits of an entrepreneur. Next, students will read an article about the 7 traits of a successful entrepreneur. Finally, students will research an entrepreneur who has started a business they find interesting and share their findings with the group.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None



1.2.A - Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [What is an Entrepreneur?](#) (Entrepreneur Week, 1:55 min)

Business leaders from Entrepreneur Week reflect on what it means to be an entrepreneur. Begin thinking about the key traits of an entrepreneur as you watch this video.

Teacher Tip: Ask students to brainstorm traits of an entrepreneur. Make a list of student responses. Be sure to include the following in your discussion.

DISCUSSION QUESTIONS: What is an Entrepreneur?

1. What do you think are the traits of an entrepreneur?

- a. Several characteristic traits of entrepreneurs are highlighted in the video [What is an Entrepreneur?](#)
- Tenacious
 - Thick-skinned
 - Persistent
 - Relentless
 - Independent thinker
 - Creative
 - Courageous
 - Not afraid to fail
 - Someone who can make something happen, affects change
 - Someone who sees a vision and is brave enough to act on the vision
 - Optimistic, Positive
 - Purposeful
 - Nuts? Crazy?
 - Maybe it is hard to define. There are all different types of entrepreneurs!
- b. Here are a few additional traits we commonly associate with entrepreneurs:
- Goal oriented
 - Resourceful
 - Self-disciplined
 - Accountable
 - Exercise good judgment
 - High tolerance for uncertainty
 - Confident
 - Strong leadership

Teacher Tip: Ask students to remember back to the list of heroic traits identified in Lesson 1 and to consider the similarities between traits we associate with entrepreneurs and the traits we associate with heroes.

2. *In your opinion, do you think it is important for an entrepreneur to have strong character? What does it mean to have strong character?*

- a. Strong personal character is a theme we will frequently refer to throughout these lessons. Your character is essentially the sum of the choices you make and the actions you pursue.
- b. People with strong character tend to practice such things as honesty, respect toward others, personal responsibility, courage, compassion, good judgment, kindness, and integrity (which is doing the right thing when no one is watching). It is apparent that these are the kinds of traits that are important for being a good person. They are also important traits for being a good entrepreneur.

Teacher Tip: Emphasize that character is not only about what you think, it is about what you do. Character is defined by the actions you take.

1.2.B – Read the following article and review the discussion points below [15 min]:

ARTICLE: [The 7 Traits of Successful Entrepreneurs](#) (entrepreneur.com)

“Entrepreneurs can be guided to success by harnessing crucial attributes. Scholars, business experts and venture capitalists say entrepreneurs can emerge at any stage of life and from any realm, and they come in all personality types and with any grade point average.”

DISCUSSION QUESTIONS: The 7 Traits of Successful Entrepreneurs

1. *What is the first thing that comes to mind when you think of a “successful entrepreneur?”*
 - a. People generally think of those iconic figures, such as Bill Gates or Steve Jobs.
 - b. These successful figures bring a certain aspect of intimidation and may therefore inadvertently scare potential entrepreneurs from starting a business.
 - c. You don’t have to be a genius to come up with a great idea; you just have to be inspired and willing to work to achieve your goal.
 - d. “...entrepreneurs can emerge at any stage of life and from any realm, and they come in all personality types and with any grade point average.”

2. *What are some of the major differences in personality traits between entrepreneurs and corporate managers?*
 - a. Entrepreneurs, for the most part, are able to tolerate stress and are open to uncertainty.
 - b. Curiosity, coupled with motivation, can lead to creative innovation.

3. *According to the article, “Entrepreneurs can be guided to success by harnessing crucial attributes.” What are these 7 attributes (or traits) of a successful entrepreneur? Please list and describe each:*
 - a. *Tenacity*- Ability to deal with repeated failure (resilience).
 - b. *Passion*- An intrinsic drive that excites; belief you can change the world!
 - c. *Tolerance of ambiguity* – Ability to withstand the fear of uncertainty and/or failure.
 - d. *Vision* – Ability to identify an opportunity where there is an overlooked niche.
 - e. *Self-belief* – Task-specific self-confidence that your idea is something the world needs!
 - f. *Flexibility* – A trait that allows you to adapt and respond to constantly changing needs and market conditions.
 - g. *Rule-breaking* – “Entrepreneurs exist to defy conventional wisdom.” Note: Rule-breaking means thinking outside the box. It does not mean entrepreneurs should disobey laws and regulations.

1.2.C - Complete the following activity and be prepared to present to the group [20 min]:

ACTIVITY: Discovering Your Passion

According to [The 7 Traits of Successful Entrepreneurs](#), one of the essential traits of a successful entrepreneur is passion. In this activity, identify three personal passions and three personal strengths that you have. Maybe family members or friends have mentioned to you that you are good at something or are talented in a particular activity. Think about what you love doing; what makes you happiest in life. It could be any activity—not just a specific job or career.

In the table below, plot your passions and your talents. In the intersecting boxes, write an activity that combines what you like to do with what you are good at doing. This exercise can help you brainstorm ideas for potential businesses you might like to start. How might you be able to use your talents and passions to be an entrepreneur?

	<u>My Strengths</u>		
<u>My Passions</u>	1.	2.	3.
1.			
2.			
3.			

Teacher Tip: Ask students to raise their hand if they would like to share their strengths or passions with the class.

1.2.D – Self-Study: Research and be prepared to present what you learn in your research:

Teacher Tip: Teachers should assign Self-Study research assignment 1.2.D at the end of class. Teachers may want to collect student essays and/or allow students to share their findings in the first few minutes of the following class.

ACTIVITY: Research a Successful Entrepreneur Based on One of Your Three Passions and/or Strengths (30 min)

Take a few minutes to learn a little more about an entrepreneur who has started a business you find interesting. You may want to base your research on an entrepreneur who has excelled in an area in which you are passionate. Research an article or two that explains how he or she started the business or found success. Write one to two paragraphs explaining the key lessons you learned from the entrepreneur you researched that you would like to share with your friends or classmates. Can you identify any entrepreneurial traits that this person exemplifies?

What has this entrepreneur done to change the world? How has the entrepreneur you researched successfully served the needs of other people? What were his or her motivations for starting a business?

If you need help thinking of an entrepreneur, here is a list to get you started: [Top 10 Tech Entrepreneurs Who Changed The World For The Better](#) (Wyncode Academy)

Lesson Recap

- Strong personal character is essential for successful entrepreneurship.
- The traits of an entrepreneur may be wide and varied, but there are several key traits that successful entrepreneurs tend to possess, including: Independent thinking, vision, tenacity, persistence, courage, purpose, self-discipline, resourcefulness, good judgment, passion, and strong character.
- Entrepreneurs combine passion and talents to create successful businesses serving others.

Additional Resources

ARTICLE: [Of Battlefields and Boardrooms](#) by Matthew McCaffrey (FEE.org)

“Are the Art of War and the Art of Enterprise two edges of the same sword? The qualities that these classical strategists recommend in great generals are actually the traits of successful market entrepreneurs.”

VIDEO: [The Call of the Entrepreneur](#) (Acton Institute, 58 min)

“The Call of the Entrepreneur tells the stories of three entrepreneurs: A failing dairy farmer in rural Ewart, Michigan; A merchant banker in New York City; and a refugee from Communist China.”

VIDEO: [Kauffman Sketchbook - "Entrepreneurial Mindset"](#) (Kauffman Foundation, 3:49 min)

“Gary Schoeniger, founder and CEO of the Entrepreneurial Learning Initiative (ELI), outlines some of the misconceptions and myths about the entrepreneurial process that have limited the efficacy, scale and scope of programs designed to teach entrepreneurship.”

LESSON 3 – DISCOVERING AN OPPORTUNITY, SERVING A NEED

Description:

Entrepreneurship is fundamentally about discovering an opportunity to meet a need. By solving a problem or filling a need in society, entrepreneurs not only enjoy profits, they also set the stage for economic growth and prosperity by creating more jobs and encouraging more entrepreneurship.

In this lesson, students are shown an example of entrepreneurship through the brief animated video of a young girl's journey in starting her own business to serve a need in her community. A guided discussion and an activity follows the video in which students will be asked to brainstorm ideas for starting a business to serve an unmet need in their own community. To conclude this lesson, students will watch and discuss a video which tells the story of how two students used entrepreneurship to build a better life.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

1.3.A - Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [The Entrepreneur](#) (Council for Economic Education, 2:50 min)

“This brief video highlights just a few of the benefits of being an entrepreneur. In this video a young woman starts her own business cleaning garages and does so well that she is able to expand her business.”

DISCUSSION QUESTIONS: The Entrepreneur

1. At the end of the video, the girl says that they are calling her an entrepreneur. What kinds of things does she do in the video that are entrepreneurial?

- a. She discovers an unmet profit opportunity by identifying the need in her community for the cleaning of messy and cluttered garages. She starts a business cleaning garages during the summer.
- b. Through hard work, she creates value for herself and her customers.
- c. She uses judgmental decision-making to lower her prices to attract more customers.
- d. She innovates by adding additional services such as organizing to better serve her customer.
- e. She finds a creative way to advertise to potential customers by sponsoring a little league baseball team.

2. What happened when a competitor discovers that she was making money by cleaning garages in her community? How does she respond to the new competition?

- a. The competitor started his own business cleaning garages.
- b. In order to retain her customers, the girl in the video lowers her prices and offers additional services to better serve her customers.

3. Do you have ideas of any businesses you can start right now?

1.3.B – Complete the following activity and share your ideas with the group [15 min]:

ACTIVITY: Serving Others in Your Community

Entrepreneurship is about identifying ways to better satisfy an unmet need. It is about discovering an opportunity, innovating new solutions to solve problems, and creating value. In short, entrepreneurs make money when they serve other people well. Take a few minutes to brainstorm ways you can be entrepreneurial and serve people in your community. Make a list of 3-5 opportunities for starting a business to help meet a need in your community today.

Tip: Be careful not to fall into the trap of thinking your idea has to be “ground breaking”. Some of the best ideas are the simplest. Does a neighbor need help with his or her lawn mowing? Or, cleaning the garage? Is a family friend looking for babysitting services? Are there ways you can help someone save time or bring enjoyment to their life? Can you help teach others how to use new technology? Be creative and think of other ways you might be able to provide a product or service to others. If you feel stuck, here are a few ideas: [20 Small Business Ideas for Teenagers to Start from Home](#)

Tip: When thinking of ideas for how your business can serve people, ask yourself: “Will there be a need for this service? Are people going to pay for this product or service? Can this need be met in an economical way?” It does no good if you have a great idea but are unable to actually bring it to life because it costs too much to produce.

My Business Ideas for Serving Others (People or Businesses):

1.

2.

3.

4.

5.

1.3.C - Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Stossel - Poverty and Entrepreneurship](#) (ABC News, 3:27 min)

“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. Two of his students went on to become entrepreneurs. One student opened a sporting goods manufacturing company while another started a music business and Bulldog Bicycles. The video ends explaining how capitalism opens up opportunities to everyone to make a better life, especially those who don’t have much.”

DISCUSSION QUESTIONS: Poverty and Entrepreneurship

1. How was Mr. Mariotti finally able to get the students’ attention in the classroom?

- a. He discovered that the students were most interested in his stories from his past business experience dealing with imports and exports.
- b. He was able to get the students’ attention by explaining the practical applications of his lessons associated with enterprise and making money.

2. Mr. Mariotti gets the students thinking by telling them to listen to what people are complaining about. Why is this useful for an entrepreneur?

- a. According to Mr. Mariotti, “When you hear people complain- that’s where the money is!”
- b. When you hear people complain, that is where there is a need. Entrepreneurs identify opportunities to serve an unmet need for people. There are also opportunities to serve an unmet need when people don’t even know they have a problem.

3. What does Mr. Mariotti believe about the abilities of children born into poverty?

- a. He believes that they have “very unique abilities in business and entrepreneurship.”
- b. They have many of the natural characteristics he calls “chutzpa,” street-smarts, as well as the fact they are generally comfortable with risk and ambiguity.

4. How does the video portray the idea of capitalism with regard to opportunities for people to climb the economic ladder?

- a. Most people think of capitalism as something practiced only by the rich and privileged, but the video suggests that “capitalism is the big equalizer.”
- b. David Kelley says, “It’s the people at the bottom who need capitalism the most, who need the system in which everyone is free to trade and free to pursue money.”
- c. Capitalism “opens up opportunities to climb the economic ladder.”

Lesson Recap

- Entrepreneurship is:
 - ✓ Serving yourself by serving others well
 - ✓ Creating value by moving resources into more productive areas
 - ✓ Innovating new products or processes to replace old ones
 - ✓ Discovering unnoticed opportunities to profit and acting on those opportunities
- You can be an entrepreneur and start your own business today with little startup expense.
 - ✓ Be alert to discovering opportunities where you can use your ingenuity, talents, work ethic to serve a need.

Additional Resources

ARTICLE: [From Kleenex to Zippers: The Unpredictable Results of Entrepreneurs](#) by Burton Folsom (FEE.org)

“When entrepreneurs are turned loose and their property rights are protected, what they eventually produce can’t be predicted—even by them. I want to describe four products that became part of American life in the 1920s—Kleenex tissues, the zipper, air conditioning, and Scotch tape.”

ARTICLE: [The Marvel of American Resilience](#) by Bret Stephens (The Wall Street Journal)

“Here, then, is the larger lesson...: Innovation depends less on developing specific ideas than it does on creating broad spaces. Autocracies can always cultivate their chess champions, piano prodigies and nuclear engineers; they can always mobilize their top 1% to accomplish some task. The autocrats’ quandary is what to do with the remaining 99%. They have no real answer, other than to administer, dictate and repress.

A free society that is willing to place millions of small bets on persons unknown and things unseen doesn’t have this problem. Flexibility, not hardness is its true test of strength. Success is a result of experiment, not design. Failure is tolerable to the extent that adaptation is possible.”

ARTICLE: [6 Stories of Super Successes Who Overcame Failure](#) by Jason Demers (Entrepreneur.com)

“Failure is not the alternative to success. It’s something to be avoided, but it’s also only a temporary setback on a bigger, more significant course. Everybody encounters failure at one point or another. What truly matters is how you react and learn from that failure. Take the stories of these six entrepreneurs. Their stories end in massive success, but all of them are rooted in failure. They’re perfect examples of why failure should never stop you from following your vision”

ARTICLE: [The Kellogg story](#) by Lawrence W. Reed (times-herald.com)

“In 1906 at the age of 46, the man who was known as “J.H.’s flunky” finally became his own boss and went into business for himself. Within two decades, he became one of America’s 20 wealthiest individuals. The next time you eat something with the name “Kellogg” on the box, think of what a great country it must be if a man can mix an idea with a few bucks and turn it into a great enterprise.”

LESSON 4 – THE ENTREPRENEURIAL SOCIETY

Description:

A society that embraces entrepreneurship creates more jobs, produces more wealth, and allows individuals to exercise their creative talents. A free market economy provides the type of environment necessary for entrepreneurship to flourish. Societies are shaped by the ideals they embrace. If we think entrepreneurship is a good thing, we should encourage more entrepreneurship by celebrating entrepreneurs and encouraging economic freedom.

In this lesson, students will watch and discuss a brief video explaining the important things entrepreneurs do for society. Students will then read an article and answer questions about the history of entrepreneurship in a fun team trivia game. Lastly, students will complete a self-study about society's transition to embracing entrepreneurship.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

1.4.A - Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [The Three Things Entrepreneurs Do for Our Economy](#) (Kauffman Foundation, 3:20 min)

“This short video from the Kauffman Foundation illustrates three important things entrepreneurs do for our economy.”

DISCUSSION QUESTIONS: The Three Things Entrepreneurs Do for Our Economy

1. According to this video, what three important things do entrepreneurs do for our economy?

- a. They “birth the new.” In other words, they innovate.
- b. They create jobs. New firms create about 3 million new jobs every year. Almost all net job creation in the United States are the result of firms less than 5 years old.
- c. They create new net wealth in society. Some entrepreneurs become very wealthy, but these entrepreneurs take in less than a fraction of a percent of the new wealth their companies generate for the society.

2. The United States has a growing labor force which means we need to create about 3 million new jobs each. What contributes to the growing number of people in the labor force?

- a. Entry of young people into the labor market.
- b. Entry of immigrants into the labor market.
- c. People returning to the labor market.

3. According to the video, what will the world need as long as human beings walk the earth?

- a. Innovators
- b. Inventors
- c. Entrepreneurs

1.4.B – Read the following article and then participate in a team trivia activity. [25 min]:

Teacher Tip: Group students into teams of 3-5 students. Ask the 11 questions below. Encourage class participation by rewarding the team who answers the most questions correctly.

ARTICLE: [The History of Entrepreneurship](#) by Ryan Allis (thestartupguide.com)

“To be a good entrepreneur it is helpful to understand how the system of the competitive market economy has developed.”

TEAM TRIVIA QUESTIONS: The History of Entrepreneurship

1. *The first entrepreneurs began to trade goods or services for other goods or services without using money, as they moved around hunting and gathering. What was the key to being able to stay in one place and not needing to live a nomadic life?*

- a. The discovery of agriculture
- b. The domestication of plants and animals.

2. *As people settled in one place, communities began to form. What was the main reason that the standard of living began to increase?*

- a. People began to specialize, which increased the quality of products and services.
- b. They were also able to cut the time needed to create or produce products and services, thus increasing efficiency which benefited everyone.
- c. “Agricultural settlements had put humanity on a rapidly developing path toward intellectual and scientific advancement.”

3. *What does the author identify as the major turning point for the human species?*

- a. Trade routes lead to the international trade of goods and ideas.
- b. “Starting in 1492, Columbus’ voyages connected Europe and the Americas, bringing guns, horses, and disease. With the importance of Atlantic trade, power would shift toward the West in the coming centuries as Europeans colonized and laid the foundations for a globalized world. The reconnection of the hemispheres marked a major turning point for our species.”

4. *What was the main limitation of the barter system?*

- a. In a barter system parties had to want what the other party had for trade to occur.
- b. People had to rely on a “coincidence of wants”, and people’s wants and needs didn’t always match. Therefore they needed another way to buy and sell products and services.

5. *What emerged to overcome the limitations of the barter system?*

- a. Money emerged as a tool people used to facilitate trade.
 - Note: Money was not invented. It merged through a process called Spontaneous Order that we will learn about in *Module 6 - What Institutional Factors Encourage Entrepreneurship?*
- b. “Early forms of money (called specie) would be often be commodities like seashells, tobacco leaves, large round rocks, or beads.”

6. *Why was the idea of efficiency and innovation frowned upon, stifled, and was even punishable by death in the 16th century?*

- a. ... “outlawed by the King under the pretense that such efficiency reduced the number of available jobs.”
- b. The myth that there are only a limited number of jobs persists even today. Of course, this is not true. Our wants and needs are virtually endless. As a result there are virtually endless jobs to be done.

7. *What was the prominent economic philosophy between the years 1550 and 1800 called?*

- a. “Between approximately 1550 and 1800, a philosophy called mercantilism was at the forefront. The mercantilists had the misguided notions that a country’s wealth was solely based on how much treasure and gold it could obtain and how much more it exported than imported.
- b. Monopolies and tariffs were promoted and competition and trade were discouraged. But they had gotten it all wrong.”

8. *Who was the 18th century philosopher who introduced a new school of thought that promoted commerce as the source of wealth and focused on rational self-interest as the guiding force in the economy?*

- a. In Adam Smith’s 1776 work *An Inquiry into the Nature and Causes of the Wealth of Nations* he explained:
 - “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-interest.”
- b. “...self-interest acts as a guiding force toward the work society desires.”

9. Name the force that regulates self-interested behavior in the market.

- a. Competition is the force that regulates people's behavior in the marketplace.
 - As Robert L. Heilbroner explains: "A man who permits his self-interest to run away with him will find that competitors have slipped in to take his trade away; if he charges too much for his wares or if he refuses to pay as much as everybody else for his workers, he will find himself without buyers in the one case and without employees in the other."
- b. "The wonderful paradox of the market, through the interaction of supply and demand and competition, creates a price that properly allocates industry so as to produce the proper quantities of goods and services. No intervention, planning, or forethought is needed to create exactly what society desires, in the exact amount it desires. What a wonderful contraption the market is. As long as society can promote competition and innovation, standards of living will continue to grow and wealth will increase."

10. What economic system led to the revolutionary progress that has occurred over the last 200 years to advance the well-being and prosperity of people all over the world?

- a. "...the market system has been one of the most significant innovations in the history of humankind."
- b. Other names for the market system include: the free market, laissez-faire capitalism, and voluntary exchange

1.4.C – Watch the following video [5 min]:

VIDEO: [Hans Rosling's 200 Countries, 200 Years, 4 Minutes - The Joy of Stats - BBC Four](#) (BBC, 4:47 min)

“In this spectacular section of 'The Joy of Stats' he tells the story of the world in 200 countries over 200 years using 120,000 numbers - in just four minutes. Plotting life expectancy against income for every country since 1810, Hans shows how the world we live in is radically different from the world most of us imagine.”

Teacher Tip: You may want to show students the [Gapminder World Wealth & Health of Nation's](#) interactive graph and watch the evolutions of the United States' movements compared to other countries around the world.

1.4.D – Self-Study: Read the following article and answer the questions below [15 min]:

ARTICLE: [Small Business and Entrepreneurship](#) by E.C. Pasour (FEE.org)

“In a free enterprise economic system, expected prices and profits provide incentives for entrepreneurial activity...Entrepreneurship may be aptly defined as an alertness to profit opportunities which have not been grasped and acted upon by others. It should be stressed that the potential for (and expectation of) profits in the competitive market process creates powerful incentives for profit-seeking individuals to discover and make use of information before it is widely known by other people.”

DISCUSSION QUESTIONS: Small Business and Entrepreneurship

1. *How does a market economy provide incentives for entrepreneurial activity?*

- a. Potential for profits creates powerful incentives for entrepreneurs to discover and make use of information before it is widely known by other people.
- b. According to Pasour, “A market economy is a dynamic discovery process generated by the competitive entrepreneurial scramble for profits.... market conditions are constantly changing due to the invention and introduction of new products, changes in production technology, changes in consumer preferences, and so on. Consequently, there are always profit opportunities available for alert individuals with innovative ideas.”

2. *New businesses and entrepreneurship is the leading source of net new jobs. What role does Pasour believe the government should play in encouraging entrepreneurship?*

- a. Pasour suggests it is not possible for the government to successfully pick winners and losers in business. To encourage entrepreneurship, “...a more feasible alternative is for government to stress the creation of a favorable business climate—to adopt policies which are consistent with risk-taking and entrepreneurial activity.”
- b. Pasour explains that “...high interest rates, high marginal tax rates, and government regulations have actively discouraged risk-taking and innovative activity in the United States.”

3. *Does the creation and development of a new product or service guarantee success for an entrepreneur?*

- a. No, because the entrepreneur must also be able to sell the product or service to willing buyers
- b. They also must sell the product at a price that is above cost in order to make a profit.

4. *If entrepreneurship is a good thing, can you think of ways to encourage more entrepreneurship?*

- a. Pasour explains, “...governmental monetary and fiscal policies to control inflation along with a reduction of taxes and regulations are important in establishing the economic climate necessary for increased saving, investment, and capital formation.”
- b. We, as a society, should celebrate entrepreneurs as heroes and encourage government to limit policies that restrict entrepreneurship.

Lesson Recap:

- Entrepreneurs do 3 important things for the economy:
 - ✓ They innovate.
 - ✓ They create jobs.
 - ✓ They create new net wealth in society.
- Competition regulates behavior in the marketplace enabling people's rational self-interest to serve as the basis for a healthy economy.
- In Adam Smith's 1776 work *An Inquiry into the Nature and Causes of the Wealth of Nations* he explained:
 - ✓ "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-interest."
 - ✓ "...self-interest acts as a guiding force toward the work society desires."
- Small businesses and entrepreneurs are the leading source of new job opportunities in the United States. Smaller firms are able to adapt to ever-changing but unpredictable economic conditions.
- Society should celebrate entrepreneurs as heroes and encourage government to limit policies that restrict entrepreneurship.

Additional Resources

VIDEO: [On Innovation](#) (MRUniversity, 3:22 min)

“Why has innovation grown so rapidly? Economist Douglass North argues it has to do with institutions such as property rights, non-corrupt courts, and rule of law, which lay the foundation for innovation to take place. Others attribute the rise to factors such as education or access to reliable energy. McCloskey argues that what really kicked innovation into high gear is a change in attitude — ordinary people who once celebrated conquerors and kings began to celebrate merchants and inventors.”

VIDEO/DOCUMENTARY: [Dog Days](#) (Moving Picture Institute)

“A captivating portrait of American entrepreneurship, Dog Days explores themes of immigration, vocation, and the power of perseverance.”

ARTICLE: [Entrepreneurship: The Driving Force of the Economy](#) by Peter G. Klein (mises.org)

“Entrepreneurship, as decisive action under uncertain conditions, is at the very heart of a market economy. Entrepreneurship is the driving force of a market economy, and entrepreneurs need property rights, the rule of law, sound money, and free and open competition to be successful.”

ARTICLE: [The Entrepreneurial Society](#) (economist.com)

“The revolution for the current generation is the entrepreneurial one. This has spread around the world, from America and Britain to other countries and from the private sector to the public one. It is bringing a great deal of disruption in its wake that is being exaggerated by the current downturn. But it is doing something remarkable: applying more brainpower, in more countries and in more creative ways, to raising productivity and solving social problems.”

LESSON 5 – ENTREPRENEURSHIP DEFINED

Description:

Entrepreneurship can be thought of as both an activity and as a way of thinking.

Entrepreneurship as an activity refers to someone who starts, organizes, manages, and assumes the risks of a business or enterprise. An entrepreneur is an agent of change. Entrepreneurship is the process of discovering new ways of using resources to meet a need.

Entrepreneurship as a way of thinking emphasizes innovation, drive, and creativity. Entrepreneurship is judgmental decision-making under uncertainty. Entrepreneurship is alertness to identifying and discovering an unmet need and then acting to satisfy that need.

In this lesson, students will read an article by Russell S. Sobel that explains entrepreneurship and introduces different ways that economists have thought about the topic. Students will then watch a video that compares and contrasts three major concepts of entrepreneurship according to a few influential economists.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

1.5.A – Read the following article about entrepreneurship and answer the questions below [15 min]:

ARTICLE: [Entrepreneurship](#) by Russell S. Sobel (econlib.org)

“Russell S. Sobel is a professor of economics and James Clark Coffman Distinguished Chair in Entrepreneurial Studies at West Virginia University where he was founding director of the Entrepreneurship Center. In this article, Professor Sobel explains entrepreneurship and introduces what notable economists have thought about the topic.”

DISCUSSION QUESTIONS:

1. Contrast the role of the entrepreneur as described by economists Jean-Baptiste Say, Joseph Schumpeter, and Israel Kirzner according to Professor Sobel.

- a. **Jean-Baptiste Say** stressed the role of the entrepreneur in creating value by moving resources out of less productive areas and into more productive ones.
- b. **Joseph Schumpeter** stressed the role of the entrepreneur as an innovator who implements change in an economy by introducing new goods or new methods of production. He emphasized the beneficial process of creative destruction, in which the introduction of new products results in the obsolescence or failure of others.
- c. **Israel Kirzner** focused on entrepreneurship as a process of discovery. Kirzner’s entrepreneur is a person who discovers previously unnoticed profit opportunities. The entrepreneur’s discovery initiates a process in which these newly discovered profit opportunities are then acted on in the marketplace until market competition eliminates the profit opportunity.

2. Is business failure important? Why or why not?

- a. “A vibrant, growing economy depends on the efficiency of the process by which new ideas are quickly discovered, acted on, and labeled as successes or failures.”
- b. “Just as important as identifying successes is making sure that failures are quickly extinguished, freeing poorly used resources to go elsewhere. This is the positive side of business failure.”

3. According to the article, which public policy best fosters entrepreneurship?

- a. The policy of Economic Freedom best fosters entrepreneurship.
- b. Improved “Rules of the Game” include:
 - Lower and less complex taxes and regulations
 - More secure property rights
 - Unbiased Judicial system

4. *What is the Economic Freedom Index? What is the relationship between economic freedom and entrepreneurship?*

- a. The [Economic Freedom Index](#) is a measure of pro-market institutions such as respect for property rights, rule of law, and low levels of corruption.
 - The annual report, Economic Freedom of the World, uses 42 distinct pieces of data to measure economic freedom in 141 nations.
- b. Economic freedom produces economic growth because economic freedom fosters entrepreneurial activity.
- c. There is a direct relationship between freedom and entrepreneurship. Greater economic freedom tends to promote more entrepreneurship.

1.5.B – Watch the following video and complete the table below as you learn about the similarities and differences between these three economists. After watching the video, answer the questions that follow [30 min]:

Teacher Tip: This video is somewhat advanced and a bit technical. Some parts may be difficult to understand, but encourage students to focus on understanding the general difference between the ways economists think about entrepreneurship.

VIDEO: [Dr. Alexei Marcoux on Defining Entrepreneurship](#) (Center for Ethics and Entrepreneurship, 17:46 min)

“Dr. Alexei Marcoux (Loyola University Chicago) compares and contrasts three major conceptions of entrepreneurship from economists Joseph Schumpeter, Frank Knight, and Israel Kirzner.”

	Joseph Schumpeter	Frank Knight	Israel Kirzner
The entrepreneurial act is...	innovative and creative	bearing uncertainty	perceiving opportunity
Entrepreneurial acts occur relatively...	infrequently	frequently	frequently
The entrepreneur’s effect on the market is...	a disruptive force that upsets the equilibrium	equilibrating	harmonizing, tends toward equilibrium
In the large corporations, the entrepreneur is most like...	anyone who innovates	the shareholders	marketing

DISCUSSION QUESTIONS: Dr. Alexei Marcoux on Defining Entrepreneurship

1. How does Schumpeter describe an entrepreneurial act? What does he mean by creative destruction?

- a. According to Schumpeter, the entrepreneur is someone who brings a new product, process, or way of doing business to the market. The entrepreneur’s essential contribution is a novel contribution and serves as a disrupter of the status quo. Creative destruction occurs when new products or process replace old ones. One classic example of creative destruction is the automobile industry replacing the horse and buggy industry.
- b. In terms of [Classical and Neoclassical models](#), the entrepreneur upsets the existing equilibrium of the market.

2. *How does Knight make the distinction between risk and uncertainty? What does it mean that the entrepreneur bears the uncertainties of the enterprise?*

- a. Risk - we know the full range of possible outcomes and can put reasonable probabilities to the occurrence of each.
- b. Uncertainty – we find ourselves in a situation in which the full range of outcomes are unknown or the reasonable probabilities cannot be put to each possible outcome.
- c. The entrepreneur bears the uncertainties of profits and losses instead of receiving a steady paycheck like one of the firm’s employees.
- d. Knight sees entrepreneurship as judgmental decision-making about the use of resources under uncertain conditions.

3. *Explain Kirzner’s view of the entrepreneur and describe the role of entrepreneurial action in bringing about greater harmony in the market.*

- a. For Kirzner, an entrepreneur is someone who perceives an opportunity and then acts on it. It is someone who sees the difference between what is and what could be.
- b. According to Kirzner, disequilibrium is the natural state of the economy. Entrepreneurial opportunities only exist because disequilibrium exists in the market. In other words, there is a gap between what is being supplied and the wants and needs of people in the market. The entrepreneur is someone who perceives that gap. Kirzner sees the entrepreneur’s action as harmonizing the use of available resources with the wants and needs of people in the market.

4. *According to Dr. Marcoux, what job functions in large corporations today would the entrepreneur be most like for Schumpeter, Knight, and Kirzner?*

- a. Schumpeter → Engineer
- b. Knight → Shareholder
- c. Kirzner → Marketing

5. *How do entrepreneurs create jobs and create new net wealth? Apply what we learned about entrepreneurship from economists Schumpeter, Knight, and Kirzner in 1.5.B - [Dr. Alexei Marcoux on Defining Entrepreneurship](#).*

- a. According to Schumpeter, the entrepreneur is someone who brings a new product, process, or way of doing business to the market. The entrepreneur creates new jobs and wealth when they innovate.
- b. According to Knight, the entrepreneur bears the uncertainties of profits and losses when they start and manage a business. It is the entrepreneur who starts businesses that employ people and create wealth.
- c. According to Kirzner, an entrepreneur is someone who perceives an opportunity and then acts on it. The entrepreneur finds new and better ways to satisfy what people want and need. He or she looks for more profitable opportunities in which goods, services, materials, and processes can be used. Alertness to opportunity is the first step to creating jobs and wealth.

Lesson Recap:

- Entrepreneurship has been a contested concept between notable economists throughout history.
 - ✓ Jean-Baptiste Say stresses entrepreneurship as creating value by moving resources into more productive areas.
 - ✓ Frank Knight focuses on the entrepreneur as bearing the uncertainties of the enterprise.
 - ✓ Joseph Schumpeter identifies an entrepreneur as one who innovates new products or processes to replace old ones.
 - ✓ Israel Kirzner sees entrepreneurship as discovering unnoticed opportunities to profit and acting on those opportunities. Kirzner sees the entrepreneur's action as harmonizing the use of available resources with the wants and needs of people in the market.
- Entrepreneurship will flourish in an environment that has “well-defined and enforced property rights, low taxes and regulations, sound legal and monetary systems, proper contract enforcement, and limited government intervention.”
- Economic freedom produces economic growth because economic freedom fosters entrepreneurial activity.
- There is a direct relationship between freedom and entrepreneurship. Greater economic freedom tends to promote more entrepreneurship.



Additional Resources

VIDEO: [What is Entrepreneurship? Foundations of Entrepreneurship: Part I](#) (FEE.tv, 60 min)

“In this first in a series of 5 online classes, Edward Stringham introduces students to fundamental concepts about entrepreneurship. He provides examples of entrepreneurs and discusses what entrepreneurship entails. Stringham’s presentation is 30 minutes followed by 30 minutes of student questions.”

ARTICLE: [Entrepreneurship](#) by Mark Casson (econlib.org)

Mark Casson, a professor of economics at the University of Reading in England, discusses the concept of entrepreneurship through the lens of economic history.

ARTICLE: [The Other Side of the Transaction](#) by Jeffrey Tucker (Mises Institute)

“Entrepreneurs have a special capacity to discern the uncertain future but they possess no power to actually create that future....This crazy uncertainty of the future — a factor which we cannot overcome, no matter how much data we accumulate or how many fortune tellers we call upon — is a universal condition, always maddening and infuriating but completely unsolvable. How can a business employ hundreds, thousands, tens of thousands of people to produce goods long before they know with certainty that anyone will buy them? Why are there such people as entrepreneurs who are willing to take all this on?”

AUDIO: [The Other Side of the Transaction](#) (Mises Institute, 7:51 min)

“The deal is there for the taking. It is up to us to decide if we want to take it....Entrepreneurs have a special capacity to discern the uncertain future, but they possess no power to actually create that future.”

VIDEO: [The Entrepreneur in Austrian Economics](#) (UFM, 1:06:39 min)

“Peter Klein talks about the increasing interest entrepreneurial activities have had during the past years, and explains its relation with Austrian Economics by describing the many contributions made to entrepreneurship. After explaining the meaning and components of an entrepreneur, Klein points out the fundamental categories of action according to the Austrian School of Economics and mentions several names of people, within the Austrian tradition, who have dedicated time to teach about entrepreneurship, such as Israel Kirzner and Joseph Schumpeter, among others. He concludes discussing the role that governments play in entrepreneurial activities and how to prevent it from impeding progress.”

MODULE 2 – WHAT IS THE ENTREPRENEUR’S ROLE IN CREATING VALUE?

"If you create value for other people then you might be able to realize a portion of that value yourself...If someone does something that is valuable, that is enough to build a good business based off of."

– MARK ZUCKERBERG, [TIME MAGAZINE](#)

"...between one-third and one-half of the differences in economic growth rates across countries can be explained by differing rates of entrepreneurial activity. Similar strong results have been found at the state and local levels."

– RUSSELL S. SOBEL, [ENTREPRENEURSHIP](#)

Overview:

Wealth does not simply exist naturally in the world. The things we want and need must be created or produced before they can be enjoyed. Entrepreneurs play a key role in value creation. They create value for themselves by creating value for others. This series of lessons explains the entrepreneur’s role in creating value for themselves and for society. Societies that encourage entrepreneurship through economic freedom tend to see much faster economic growth than those that do not.

Concepts and Terms:

- Business
- Capital
- Customers
- Entrepreneurship
- Factors of Production
 - Capital
 - Land
 - Labor
- Jobs
- Profit
- Shareholder
- Stakeholder
- Value
 - Intrinsic Value
 - Objective Value
 - Subjective Value
 - Labor Theory of Value
- Wealth

Objectives:

Students will be able to...

- Define value and describe why goods of value must be produced
- Explain the difference between subjective value and competing theories of value such as the labor theory of value
- Identify the difference between creating value and creating work
- Discuss how an entrepreneur creates value for society
- Explain the essential role entrepreneurs play in creating economic growth
- Articulate what it means to create value for oneself by creating value for others
- Understand the entrepreneur's role in discovering and innovating new and better ways of solving problems to meet human needs

Related Standards:

STANDARD 2: DECISION MAKING – Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something; few choices are “all or nothing” decisions.

STANDARD 3: ALLOCATION – Different methods can be used to allocate goods and services. People acting individually or collectively must choose which methods to use to allocate different kinds of goods and services.

STANDARD 13: INCOME – Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce.

STANDARD 15: ECONOMIC GROWTH – Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living.



LESSON 1 – VALUE IS IN THE EYE OF THE BEHOLDER

Description:

In this lesson, students will learn that *value is subjective*; that is the value of something is based on individual preference. People can value the same things differently, and a person can value the same thing differently at different times. While resources such as the amount of labor or the material something is made of factor into people's valuation, they alone do not determine their value.

Students will first watch a video in which Donald Boudreaux uses t-shirts to demonstrate how value is subjective. They will then participate in an activity explaining why an object's value is not solely determined by the labor that went into making it or the material it is made of. Lastly, the students will read and discuss an article by Max Borders in which he explains the concept of subjective value.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 1 – What is Entrepreneurship?

2.1.A - Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [Subjective Value](#) (Learn Liberty, 3:50 min)

“Prof. Don Boudreaux demonstrates the subjectivity of value by comparing a Che Guevara and Milton Friedman t-shirt. He finds that value cannot be determined objectively, as the value of the thing is held only in the mind of the beholder. Therefore, value is not a product of the amount of labor or resources required to make it. Rather, value is determined by the preferences of individuals.”

DISCUSSION QUESTIONS: Subjective Value

1. Explain the concept of subjective value.

- a. Prof. Boudreaux explains subjective value using the example of the two shirts. Both shirts cost the same amount of time, money and resources to make, but have different value to different people. Prof Don Boudreaux values the Milton Friedman t-shirt more than the Che Guevara t-shirt. However, other people might value the Che Guevara t-shirt more – therefore the value of each t-shirt is subjective.
- b. Prof. Don Boudreaux explains “It’s important to understand that the value is not in the thing itself. It doesn’t come like the Marxists believed or even the classical economists believed from the amount of labor that goes into producing it. Value is not a product of how many other resources went into producing something. Ultimately things have value only if and only because human beings want those things. The more intensely human beings want those things, the more valuable they are.”
- c. Subjective value is the concept that everyone has different tastes and preferences – so people value goods and services differently to others. Value cannot be measured using the amount of resources that went into producing something.

2. If value is subjective, how is value measured or shown for the good or service?

- a. Value is displayed through the market prices for goods and services. The more people that value a good or service, the more that are willing to pay for it, so the higher the price will be. If few people value a good or service the price will be lower because people will be less willing to pay for it.
- b. Prof Don Boudreaux explains “The economists didn’t understand subjective value until the middle of the 19th century when particularly Carl Menger of the Austrian school realized that people pay for things only because they want those things. They don’t pay for things that they don’t want. And so the value that people have in their minds for the things they buy gets transmitted through money prices into the market prices of the goods and services.”

3. What does the Professor mean by the statement “Value ultimately comes from the human mind?”

- a. Value is subjective and is based on people’s preferences, tastes and opinions. As explained using the concept of the two t-shirts, if people’s view of Milton Friedman changed, then the value of the t-shirt would change.
- b. All the other resources and every other characteristic about the two t-shirts, apart from the image on the front, is identical.

2.1.B - Complete the following group discussion activity using the questions below to help guide your discussion [15 min]:

ACTIVITY: Myth Busting – Who or What Determines Value?

1. *Is the value of a good determined by the amount of labor required to make the good? (Y/N)*

- a. No. Although the production of value does require labor, there is more to the story. Consider the following: Is a mud pie that took 2 hours to produce as valuable to you as a delicious chocolate pie that took 2 hours to produce?
- b. The amount of labor required to produce each pie is the same, but the value of the two pies is very different.
- c. It is a myth that the value of the good is only determined by the amount of labor required to make the good.



2. *Is the value of a good determined by the materials that make up the good? (Y/N)*

- a. No. Although the properties of the materials are important in determining why people may value a good, there is more to the story.
- b. Using our previous example, the delicious chocolate pie may be more valuable to you than the mud pie because of the ingredients or materials that make up the pie. However, consider the following: Do you always value goods with the exact same materials equally? Is a beautiful marble sculpture worth the same to you as a marble block?
- c. Value is not solely determined by the materials that went into producing it.



3. *Is the value of a good determined by what it costs to produce the good? (Y/N)*

- a. No. Take movie popcorn for example. It costs about 90 cents for the raw goods necessary to produce a large bucket of popcorn. However, large buckets of popcorn are sold for a whopping \$8.15 on average. That's quite a markup!
- b. Why might people value a bucket of popcorn at the movies at such a high price when it only costs 90 cents to produce? People seem to value the experience of enjoying popcorn at the movies. Many are willing to pay significantly more for popcorn at the movies than they are for popcorn they eat at home.
- c. Value is not solely determined by the cost that went into producing it.



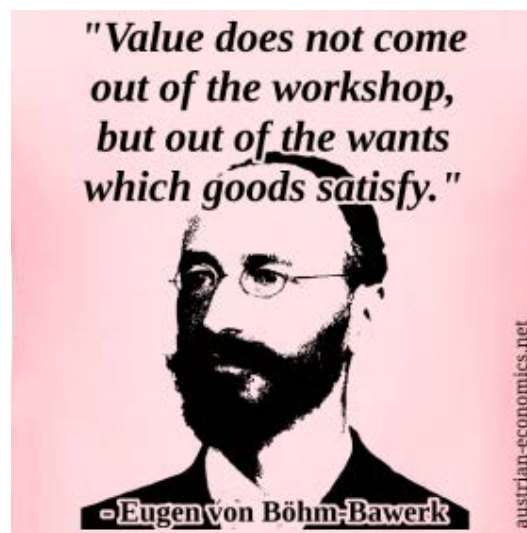
4. *Is the value of a good constant over time and across situations? (Y/N)*

- a. No. Different people can value the exact same object very differently. Your own valuation of the same object can change over time based on your situation. For example, would you pay \$100 for a bottle of water right now?
- b. What would you pay for a bottle of water if you were dying of thirst in a desert?
- c. Value of a good is not constant over time and across situations.



5. *Is the value of a good always the result of individual subjective value judgments? (Y/N)*

- a. Yes. The value of a good is based on our own individual preferences and how we think the good might help us satisfy our wants and needs.
- b. The value of a good is how much the desired good is worth relative to other available options.
- c. Economic values are expressed as "how much" of thing would be given up in exchange for some other thing. We will discuss this idea in more detail in *Module 3*.
- d. The value of a good is always the result of individual subjective value judgments. This is another way of saying that value is the result of individual preferences relative to other available alternatives.



6. *How might understanding subjective value help you as an entrepreneur?*

- a. People value a good based on how much they desire or need it.
- b. This valuation varies from person to person, across situations, and may change with time.
- c. The value of goods and services is not based on the cost of materials or labor needed to produce it. Something is only worth what someone else is willing to give up for it.
- d. To be successful, an entrepreneur must create value for others. This means entrepreneurs must find ways to learn what their customers consider valuable.

2.1.C – Article: Read and discuss the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Subjective Value](#) by Max Borders (FEE.org) –“Subjective value can be a tough idea for some people to grasp. It can be even harder for people to accept. But here’s the hard truth: Value does not inhere in things. Sunsets are not inherently beautiful. Vanilla ice cream is not inherently tasty. Jazz is not universally loved. Prices are objective—that is, publicly observable. We can each walk into a store and see that the avocado is \$1.50. But our inner states will determine whether the fatty fruit winds up in any of our baskets.”

DISCUSSION QUESTIONS: Subjective Value

1. *How does Max’s trade of \$1.00 for 25¢ make sense? Was it a fair trade?*

- a. Even though Max received less money, he was willing to give up \$1.00 for 25¢ because he valued the quarter (and therefore having dry clothes) *more* than he did the \$1 he gave the man. Likewise, the man valued having a dollar bill more than he did having one less quarter, so he was willing to make the trade. Both Max and the man valued what the other had more than what they themselves had, so they were willing to make a trade.
- b. Because both Max and the man thought they were better off and agreed to the trade, the trade was fair.

2. *If value is something that is determined in the “private states of people’s minds,” how can we measure value? How do prices arise?*

- a. We will never know exactly how someone else values something, since we cannot share their mind. What we can do is see how people act, assuming that people act based on what they value. We can see what people prefer relative to other goods.
- b. Prices are a result of a complex network of decisions that people make when deciding how much of something (in this case, money) they are willing to give up for something else. Sellers and buyers engage in a discovery process in which they react to each other’s willingness to trade.

3. *If value is subjective, why might we be suspicious of one-size-fits all government policies?*

- a. It’s very unlikely that a one-size-fits all policy will work well, because there is such a great deal of variation between people and how they value different things. Furthermore, these decisions about value are constantly changing. Politicians and bureaucrats will never be able to know how, or why, any one individual—much less the huge numbers of people their policies affect—value things. As a result, attempts to make decisions for others—especially by politicians and bureaucrats, who cannot possibly know how all the people affected by a policy value something—will at best leave many people unhappy, and at worst can prove dangerous.
- b. Each of us is the best judge of what we value, since we are the only ones who possess our minds. Free, voluntary market exchange consists of individuals acting on their decisions about what is good for them, judged by themselves—all based on their own subjective valuation. It is the economic system best suited to the reality that value is subjective and is constantly changing, and is therefore the most effective at creating and delivering value for everyone.

Teacher Tip: As an optional activity, choose one student to read the poem out loud to the class.

2.1.D – Complete the following optional activity [5 min]:

ACTIVITY: Smart

Read the popular poem by Shel Silverstein called “Smart”. People don’t always make smart trades based on their subjective valuations and individual preferences!

SMART BY SHEL SILVERSTEIN

My dad gave me one dollar bill

'Cause I'm his smartest son,

And I swapped it for two shiny quarters

'Cause two is more than one!

And then I took the quarters

And traded them to Lou

For three dimes -- I guess he don't know

That three is more than two!

Just then, along came old blind Bates

And just 'cause he can't see

He gave me four nickels for my three dimes,

And four is more than three!

And I took the nickels to Hiram Coombs

Down at the seed-feed store,

And the fool gave me five pennies for them,

And five is more than four!

And then I went and showed my dad,

And he got red in the cheeks

And closed his eyes and shook his head--

Too proud of me to speak!

Lesson Recap

- Value is subjective and is based on people's preferences, tastes and opinions. This means that the value of a good is ultimately based on the tastes and preferences of an individual. Different people desire (or like) things differently, and the same person can desire the same thing differently at different times. Each of us is the best judge of what we value something.
- Value is NOT simply determined by the amount of effort, time, or material it took to make.
- Value can be measured by the amount of money (or other resource) someone is willing to give up in exchange for an item or service. This was an important contribution of the Austrian school of economics; as economist Carl Menger explained, "value gets transmitted through the money prices into the market prices of the goods and services."

Additional Resources

ARTICLE: ["The Economic Way of Thinking, Part 2"](#) (FEE.org)

"What two buyers are willing to exchange for an article reflects their separate personal valuation of that good. It is possible that two diamonds of different size and quality might sell for the same price. Any number of personal, subjective considerations might lead two buyers to offer the same price for goods with different properties. On the other hand, two similar diamonds might sell for different prices at auction, if buyers do not impute similar value to them."

ARTICLE: [Subjective Versus Objective Costs: How the Labor Theory of Value Almost Destroyed the World](#) (HuffingtonPost.com)

"It was not until almost a century later after the publication of *The Wealth of Nations* that, working independently, three economists made what is called "the subjective value breakthrough." Menger was the most clear: a product's value was determined by the demand for it by consumers in the marketplace and its marginal supply. Hence, value could change moment by moment and was ultimately determined by consumers responding to the current supply.

ARTICLE: [Subjective Value and Market Prices](#) by Robert Murphy (mises.org)

"One of the most subtle aspects of modern economic theory is the relation between subjective value and objective money prices. This is an area where the Austrians have an advantage over other schools, because they care more about their forebears than most other economists, and because Austrians were instrumental in the development of subjective-value theory."

LESSON 2 – VALUE MUST BE PRODUCED

Description:

Before something of value can be consumed it must first be produced. The only ways to obtain something of value are either to produce it yourself, trade for it using another value that you have produced, receive it as a gift from someone who has produced it, or steal it from someone else who has produced it. All but the last would be considered examples of value creation in the market.

In this lesson, students will learn about the entrepreneur’s role in creating value in the market. In a short video, Professor Benjamin Powell explains the difference between creating value and creating a work. In an article by Steve Horwitz we explore the difference between value creation and job creation in more detail. In a brief activity, students will identify ways in which the business idea they selected in *Activity 1.3.B - Serving Others in Your Community* will create value for themselves and their community.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 1 – Value is in the Eye of the Beholder

2.2.A - Watch and discuss the following video using the questions below to guide your discussion [5 min]:

VIDEO: [How to Create a Job: Creating Value, Not Just Work](#) (EconFree, 2:16 min)

“Americans are searching for answers that will lead to lasting, quality jobs. Economics professor Benjamin Powell explains that past failures of jobs programs show that addressing the symptom instead of the disease has yet to lead to real job growth. Instead of talking about jobs programs, what needs to be discussed is how to provide the right environment for growth.”

DISCUSSION QUESTIONS: How to Create a Job: Creating Value, Not Just Work

1. *What is value?*

- a. Value is the worth or usefulness of a good or service.
- b. The value of a good is always the result of individual subjective value judgments. This is another way of saying that value is the result of individual preferences relative to other available alternatives.
- c. People value a good based on how much they desire or need it.
- d. This valuation varies person to person, across situations, and may change with time.

2. *What is the difference between creating value and creating work?*

- a. Jobs themselves are not the end goal. The goal is the value the job creates.
- b. Anyone can create work, but not all work creates value. The video provides examples of digging holes and then refilling the holes or digging with spoons. These activities can create more jobs, but they do not create value.
- c. Note: In Lesson 3 we will discuss the concept of value in greater detail.

3. *Why do people engage in production? In other words, what is the ultimate purpose of production?*

- a. All goods we want and need must be created or produced before they can be consumed. Wealth does not just exist naturally in the world. Material resources must be harvested, mined, molded, shaped, combined, and arranged to fit our needs.
- b. Production is a combination of mental and physical effort to create the things we want and need.

4. *How does the entrepreneur create a job by creating value?*

- a. In the market, the entrepreneur has to create a good or service that a consumer is going to value.
- b. According to Dr. Powell, if the value of the good or service provided by the entrepreneur is more than the cost of the inputs, the entrepreneur creates a job.

2.2.B – Read the following article and answer the questions below [15 min]:

ARTICLE: [Creating Jobs versus Creating Value](#) by Steven Horwitz (FEE.org)

“The next time anyone starts talking about job creation, stop listening. Jobs come into existence when entrepreneurs are free to create value. Aiming directly at job creation is a recipe for waste and poverty. Set people free to use their talents to create value for others and the jobs will follow.”

DISCUSSION QUESTIONS: Creating Jobs versus Creating Value

1. Why should politicians be more concerned about value creation instead of worrying so much about job creation? Why do you think politicians tend to focus only on job creation?

- a. Value creation means producing things that people want and need. This creation of wealth raises standards of living and creates meaningful jobs. When people are free to create wealth, the jobs will follow.
- b. A few reasons that politicians might tend to focus on creating jobs instead of creating value include:
 - New jobs created by a specific government program are visible and easy to quantify. The [unemployment rate](#) reported by the Bureau of Labor Statistics is a highly politicized number. It is more difficult to measure the jobs that are destroyed or never come into existence as a result of scarce resources being redirected to the government program.
 - Politicians can create jobs for politically favored groups, even if it is at the expense of people in the society at large. A recent example is the bailout of US automobile manufacturers during the 2007/2008 financial crisis.
 - It is easier. Politicians can bring new jobs into existence with the stroke of a pen. This does not mean the jobs will use scarce resources in a way that creates value for people.

2. In the example of Steve Jobs, why is the real job-creation impact of Apple much higher than the 43,000 jobs at Apple alone?

- a. There are millions of ancillary jobs created through the invention of products like the Mac, iPod, iPhone, and iPad.
- b. These jobs may include things like programming, web design, app design, hardware maintenance, accessories, and more.

3. *Explain what Professor Horwitz means when he says, “Aiming directly at job creation is a recipe for waste and poverty.”*

- a. Using a hypothetical example, Professor Horwitz explains that we could “...create millions of jobs quite easily by destroying every piece of machinery on U.S. farms.” Without labor saving machinery, there would certainly be more work for people to do. In fact, that was the case 100 years ago when 40% of Americans worked in agriculture.
- b. However, we were a much poorer society 100 years ago without the “labor-saving, job-destroying technology.” It is the “higher farm productivity and lower prices” (via innovative machinery) that free up labor to produce of all of the new products and services that we enjoy today. The demand for all of these new goods “created many more jobs than were lost in agriculture” thus adding value and creating wealth.
- c. Although modern jobs programs don’t aim at destroying valuable equipment to create jobs, the tradeoffs involved with all government jobs programs are very similar to Professor Horwitz’s hypothetical example. A jobs program can create thousands of jobs. However, as we see in this article, job creation does not mean we are using resources to create things that people want and need. Any time a government program uses scarce resources to create jobs, those resources cannot be used for other more productive uses.
- d. Professor Horwitz explains that the path to wealth is creating an environment that “...enables individuals to find ways to use their knowledge and skills to create value for others and thereby create wealth for themselves.”

2.2.C – Complete the following activity and share your ideas with the group [25 min]:

ACTIVITY: *Creating Value* (25 min)

For this activity, select a business you think you might like to start. If needed, go back to your list of business ideas you identified in *Activity 1.3.B - Serving Others in Your Community*. Take a few minutes to share the ways your business will create value with your group.

For your business to be successful, you must provide a product or service that other people find valuable. Begin to think how your business will add value for your customers and your community. As an entrepreneur, you have the opportunity to create value for yourself when you create value for other people. Answer the questions below as you think about how your business will create value for you and for other people.

1. *How will your business create value for others in your community?*

Teacher Tip: Examples may include bringing products or services that were not previously available, helping people save time, creating jobs, making the community cleaner / more beautiful, helping people in need, inspiring others, etc.

a..

b.

c..

2. *How will your business create value for you?*

Teacher Tip: Examples may include monetary profits, self-esteem, becoming a role model for others, experience of learning real business skills, networking to make professional contacts, great to put on a resume or college application, etc.

a.

b.

c.

3. *Briefly describe how you think you might be able to tell if your business is creating value for people in your community:*

Lesson Recap

- All goods we want and need must be created or produced before they can be consumed. Wealth does not just exist naturally in the world. Goods must be produced.
- There is a difference between creating work and creating value.
- The best “jobs program” is to provide the right environment for economic growth.
- “Jobs come into existence when entrepreneurs are free to create value...set people free to use their talents to create value for others and the jobs will follow.” – Steve Horwitz
- The path to wealth is creating an environment that “...enables individuals to find ways to use their knowledge and skills to create value for others and thereby create wealth for themselves.”

Additional Resources

ARTICLE: [Creating Jobs vs. Creating Wealth](#) by Dwight Lee (FEE.org)

“Remember the opportunity costs. Because people tend to think of jobs as ends rather than means, they are easily fooled into supporting government programs on grounds that jobs will be created.”

ARTICLE: [Value Creation VS Regulation](#) (FEE.org)

“The entrepreneurs who created Uber saw what they believed to be a great way to create value for city travelers: Uber’s app could connect riders with the closest available car, show waiting riders their cars approaching, measure distances traveled, calculate the fares, bill the riders, pay the drivers, and let both drivers and riders leave reviews for others to see. What an idea!

They spotted an undiscovered market, which promised profits. So they went for it. Sure enough they are earning big profits.

Where do these profits come from? They come, like all profits earned in free and voluntary exchange, from creating value for others - in this case, providing a valuable service to city riders”

VIDEO: [Make Progress, Not Work](#) (Learn Liberty, 3:41 min)

“As technological developments increased farm yields over the last two centuries, the share of the US population employed in agriculture fell from around 90 percent to around 2 percent.”

VIDEO: [Broken Window Fallacy](#) (Learn Liberty, 3:09 min)

“Does destruction create jobs? After natural disasters, terrorist attacks, and wars, some people argue that these disasters are good for the economy, because they create jobs and prosperity. As Prof. Art Carden explains, this is an example of the "broken window fallacy," a term coined by Frédéric Bastiat. When a shopkeeper's window is broken, he will spend money on a new window, which gives income and jobs for glaziers. This activity is "seen," but the "unseen" is just as important: the money spent on a new window could have been spent on other things. Wealth has not increased, but only been reallocated from some people to others, and society is worse off by one window.”

LESSON 3 – CREATING VALUE AND SERVING OTHERS

Description:

Entrepreneurs create value for themselves by creating things that other people value. The market is the sum of the interactions between people exchanging value for value. The market process directs resources to where they are most valued. In addition to increasing general wealth in society, exchange, specialization, and trade promote cooperation and social harmony.

In this lesson, students will read an article by Dwight Lee on supply and demand, in which he explains how these forces direct people to accommodate each other. Then, students will watch a brief video in which Matt Ridley explains that “everyone works for everyone else” and as a result, all of our lives are better. Finally, students will read an article about an affordable lighting product that has improved the lives of millions of impoverished people.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 1 – Value is in the Eye of the Beholder

Lesson 2 – Value Must Be Produced

2.3.A – Read and discuss the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Demand and Supply](#) by Dwight Lee (FEE.org) – The Market Process Directs People to Accommodate One Another

DISCUSSION QUESTIONS: Demand and Supply

1. What are the laws of demand and supply?

- a. The law of demand states that as prices decrease consumers will demand a higher quantity of a particular good or service and as prices increase consumers will demand a lower quantity of a particular good or service. This is due to the inverse relationship between price and quantity demanded. In simple terms: as prices go down, the quantity people demand tends to go up.
- b. The law of supply states that as prices increase, suppliers will be willing to supply a larger quantity of a particular good or service and as prices decrease suppliers will supply a smaller quantity of a particular good or service. This is due to the direct relationship between price and quantity supplied. In simple terms: as prices go up, the quantity people supply tends to go up.

2. When the price of a good increases, what information is being communicated from buyer to seller, and buyers to other buyers?

- a. When the price of something increases, buyers are signaling to sellers that they value this good more and that they want more resources devoted to producing this good, because this good is now worth more than what the resources were previously used for.
- b. When this happens the sellers are willing to sell more of their good or service because they can now get a higher price for it. However buyers also signal information to other buyers –everyone should economize their use of that particular good, take good care of their goods and substitute other products because the good is now more expensive to consume.

2.3.B - Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Everybody is Working for Everybody Else](#) (The Rational Optimist, 1:55 min)

“Matt Ridley highlights how market interactions depend on people doing things for each other, enabling the average person today to enjoy luxuries that were once the province of nobility. “Louis XIV ... had 498 people to prepare his dinner every night. But you know what? Every single one of you has 498 people to prepare your dinner tonight. They’re working in cafés and bistros and restaurants and shops all over town, but each of them is ready at an hour’s notice to give you an extremely good meal that is probably less likely to have salmonella in it than Louis XIV’s did.”

DISCUSSION QUESTIONS: Everybody is Working for Everybody Else

1. *What does Ridley mean when he says “in a sense, we’re all kings now”?*

- a. He is referring to the numerous servants French king Louis XIV had, and how today we all have many more “servants” than the king ever did.
- b. The average person today is wealthier than even the richest kings of the past.

2. *What is the result of increased exchange and specialization Ridley mentions in the video?*

- a. The number of people who “serve” us has increased, and the network of service has expanded to cross continents; a “collective intelligence, where everybody is working for everybody else to bring us whatever we need.”
- b. In other words, increased exchange and specialization has led to greater cooperation and wealth.

3. *What are some other examples of “servants” that you or your family uses? What are some ways in which you or your parents serve others?*

- a. Answers could include: the people who made your: clothes, air conditioning/heating system, house, computer; or who teach you, treat you when you’re sick, etc.
- b. The work parents and students perform at a job or through their business are examples of serving other people.

2.3.C - Read and discuss the following article using the questions below to guide your discussion [20 min]:

ARTICLE: [This Product Can Change Your Life: The d.light Story](#) by Simon Keane-Cowell (Architonic.com)

“Imagine, as a manufacturer, that your potential market is two billion consumers worldwide. This almost inconceivable figure is the ultimate scale of d.light’s ambition, a consumer products company set up by a pair of social entrepreneurs in 2007 to design and produce lighting solutions for the one in four people on this planet who live without electricity. With two million lives already positively affected by d.light’s innovative solar-powered lamps and counting, the company’s story is only just the beginning. Architonic spoke to co-founder and CEO Sam Goldman about this life changing project.”

DISCUSSION QUESTIONS: This Product Can Change Your Life: The d.light Story

1. *How did Sam Goldman use entrepreneurship to create value for others?*

- a. Goldman observed an opportunity to create value by serving a need: “Goldman cites personal experience as a starting point for the d.light project.
- b. While living off grid, in Benin, he used, as the only option in many parts of the world, a kerosene lamp ‘every day and every night. It’s a horrible source of lighting’. Indeed, kerosene is a dirty, dangerous, and in terms of the light it produces, relatively poor-performing fuel, detrimental over time to the health of its users, not to mention hazardous nature in terms of fires.”
- c. In order to best create value for his customers, Goldman made customer focus a major aspect of d.light: “Our design team spends hundreds of hours in the field, interviewing, observing and sometimes even living the lifestyles of our customers. We also engage in an extensive prototyping process that engages the end-users at every step, getting their feedback on every single aspect of the product. Our customers have the final say in how our products are designed.”

2. *For which groups has D.light created value?*

- a. D.light has created value for a number of groups. It provides value for its customers in the form of low cost, environmentally friendly, safer and healthier high quality lighting. The company’s solar-lamp products have affected the lives of two million people in over 40 countries, primarily in India and East Africa. “The effect that this has on quality of life in terms of allowing people to do work, study and socialize beyond daylight hours is, almost needless to say, far-reaching.”
- b. The business has also created employment for people living in lower income countries. Through their business, the employees working at the company are creating value for others, as well as gaining value through their employment.
- c. D.light has also created value for its investors ‘We focused on getting a 50/50 mix of more commercial investment money that would really drive the company towards commercial sustainability and more social investment money that would ensure that we keep sight of our objectives’

Lesson Recap

- To be successful, an entrepreneur must create value for others.
- The number of people who “serve” us has increased, and the network of “service” has expanded to cross continents; a “collective intelligence, where everybody is working for everybody else to bring us whatever we need.” In other words, it has led to greater cooperation and wealth.
- Prices contain information about supply and demand. For example, a rise in the price of something can indicate a rise in demand for that good or service, which tells producers to increase the supply. Prices also signify information to buyers: when a price increases, buyers know to use their goods wisely, take care of them, and use substitutes.
- Exchange and specialization lead to a system where “everybody works for everyone else” to provide things we want. In other words, exchange and specialization promote cooperation and harmony.
- The market process directs people to accommodate one another

Additional Resources

ARTICLE: [Consumption, Innovation and the Source of Wealth](#) (FEE.org)

“The ultimate source of wealth in society is producers who create value. The hourly worker creates value by providing a marginal product whose value is greater than the real wage she is paid (though competition tends to keep this differential to a minimum). The firm as a whole creates value by producing an output that consumers value more than the sum of cost of the inputs used by the producer, including the value of time the production process takes. All this value creation can be seen as forms of innovation. The value creation that comes from the ongoing innovation of the market is what creates the wealth that makes consumption possible”

VIDEO: [Matt Ridley ZURICH.MINDS](#) (The Rational Optimist, 18:20 min)

“Matt Ridley ZURICH.MINDS flagship event 2011 on Rational Optimism”

PODCAST: [Ridley on Trade, Growth, and the Rational Optimist](#) (EconTalk, 59:03 min)

“Matt Ridley, the author of *The Rational Optimist*, talks with EconTalk host Russ Roberts about why he is optimistic about the future and how trade and specialization explain the evolution of human development over the millennia. Ridley argues that life is getting better for most of the people on earth and that the underlying cause is trade and specialization. He discusses the differences between Smith’s and Ricardo’s insights into trade and growth and why despite what seems to be strong evidence, people are frequently pessimistic about the future. Ridley also addresses environmental issues.

ARTICLE: [Japan’s Challenge: An Entrepreneurial Approach to Disaster Recovery](#) (Kauffman Fellows)

“In the past Japan has used its confrontations with crisis as opportunities to propel entrepreneurship. After its defeat in World War 2, young entrepreneurs like Sony’s founder Akio Morita and Honda’s Soichiro Honda helped the country rebuild from ashes to achieve remarkable economic growth. After the 1995 Kobe earthquake killed more than five thousand people, a young man from Kobe decided to quit a major corporation to start an internet electric commerce venture called Rakuten, which has since grown into a corporation with a market value of \$13 billion. These facts raise hope that this time too, Japan can reinvent itself from tragedy”

LESSON 4 – SHAREHOLDER VS. STAKEHOLDER VALUE

Description:

In a market economy there is no conflict between the incentives for the entrepreneurs to profit and the wellbeing of consumers, employees, and society as a whole. When entrepreneurs produce value, wealth is increased.

In this lesson, students will read a famous essay by Milton Friedman in which he argues that the sole social responsibility of business is to increase profits. Students will then watch a brief interview with John Mackey, CEO of Whole Foods, who discusses the importance of creating value for all of the business' stakeholders. In another video, Darden School of Business Professor R. Edward Freeman suggests how serving all of the business stakeholders, including the community, is the path to higher profits. Finally, students will explore the relationship between profits and value creation.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 1 – What is Entrepreneurship?

Lesson 2.1 – Value is in the Eye of the Beholder

Lesson 2.2 – Value Must Be Produced

2.4.A - Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [John Mackey: What is the Purpose of Business?](#) (Institute for Corporate Ethics, 6:21 min)

“Darden School of Business Professor R. Edward Freeman hosts a conversation with John Mackey, Co-Founder & Co-CEO of Whole Foods Market, on topics such as the purpose of business, the importance of creating value for customers and stakeholders, and the reasons people start businesses.”

DISCUSSION QUESTIONS: John Mackey: What is the Purpose of Business?

1. *First, let's define two of the terms introduced in the video. What is the difference between a shareholder and a stakeholder in a business?*

- a. *Shareholders* are a company's owners. Shareholders own shares in a company.
- b. *Stakeholders* are people with an interest, concern, or stake in the business. Stakeholders include employees, customers, suppliers, investors, and the community.

2. *Do you think the only purpose of business is to maximize profits for the shareholders?*

- a. Businesses have many purposes, and those purposes may evolve over time. The initial purpose of a business is defined by the entrepreneur who creates the business.
- b. John Mackey explains that people go into business to make money, but there are other factors such as *passion to create* that are also important purposes for the business creator.
- c. John Mackey provides a few examples of other reasons people go into business: “Doctors want to heal people, teachers want to educate people, and architects want to design buildings.”

3. *Who are the stakeholders of a business?*

- a. Customers
- b. Employees
- c. Suppliers
- d. Investors
- e. The larger community

4. *John Mackey says that many people start businesses because they are passionate about something. What are you passionate about?*

2.4.B – Read the New York Times article below and be prepared to discuss with the group [15 min]:

ARTICLE: [The social responsibility of business is to increase its profits](#) by Milton Friedman (New York Times Magazine)

DISCUSSION QUESTIONS: The Social Responsibility of Business

1. *What is the relationship between profit and creating value for customers and other stakeholders in the business?*
 - a. Profit is the reward for transforming resources in a way that creates value for customers.
 - b. The concept of profit is explained more fully in [Module 5: What Do Profit and Loss Tell Us?](#)

2. *Do you agree that the social responsibility of a business is to increase profits? Why or why not?*

2.4.C – Read the New York Times article below and then watch the video from the Institute for Corporate Ethics. Discuss the questions that follow [15 min]:

VIDEO: [Shareholders vs. Stakeholders -- Friedman vs. Freeman Debate - R. Edward Freeman](#) (Institute for Corporate Ethics, 1:17 min)

“Darden School of Business Professor R. Edward Freeman explains how maximizing value for shareholders actually entails also maximizing value for stakeholders.”

DISCUSSION QUESTIONS: Shareholders vs. Stakeholders

1. *Milton Friedman argues that businesses best fulfill their social responsibilities to society by focusing on increased profits. John Mackey, founder of Whole Foods Market, believes that a business's social responsibility goes beyond maximizing profits. Can both views be correct? If so, how?*
 - a. Milton Friedman is famous for saying: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."
 - b. R. Edward Freeman: “The only way to create value for shareholders in today’s world is to pay attention to customers, suppliers, employees, communities, and shareholders at the same time. Community and civil society is absolutely essential to business.”
 - c. So, the answer is yes, both views can be correct: by focusing on meeting the wants and need of stakeholders, businesses can maximize value creation and sustain long-term success, thus fulfilling their obligation to shareholders. In doing so, businesses can foster cooperation and harmony.

2. *Do you find Professor Freeman’s explanation convincing that maximizing value for shareholders also involves maximizing value for stakeholders?*

Lesson Recap

- Shareholders are a company's owners. Shareholders own shares in a company.
- Stakeholders are people with an interest, concern, or stake in the business. Stakeholders include employees, customers, suppliers, investors, and the community.
- There are many purposes of a business. The purpose of a business is originally defined by the entrepreneur who creates the business, but the purpose may change and evolve over time.
- Entrepreneurs and business owners can create value for themselves by creating value for customers, suppliers, employees, communities, and shareholders at the same time.
- In a market economy there is no conflict between the incentives for the entrepreneurs to profit and the wellbeing of consumers, employees, and society as a whole. When entrepreneurs produce value, wealth is increased.

Additional Resources

ARTICLE: [“What is the Purpose of the Firm? Shareholder and Stakeholder Theories”](#) by Michael D. Pfarrer (enterpriseethics.org)

“There are two competing theories about the purpose of the modern business firm. Each provides a framework for evaluating executive compensation policies, corporate governance procedures, and the economic and social performance of business. The first, shareholder theory, emanates from an economic perspective, focusing on the firm’s purpose of creating wealth for its owners while minimizing both the importance of the firm’s interaction with its other constituencies and its role in society. The second, stakeholder theory, broadens the first perspective, recognizing the importance of wealth creation as well as the firm’s relationships with its multiple constituent groups—shareholders, creditors, employees, customers, suppliers, regulators, and local communities—and impact on society at large.”

Description:

Entrepreneurship is the essential foundation for economic growth. Entrepreneurial discoveries and insights build on one another to create new and better products and processes. Entrepreneurship creates opportunities for more entrepreneurship. It is an ongoing process. However, in the general equilibrium models traditionally used in a macroeconomics classroom, there seems to be little room for entrepreneurship and the process of competitive discovery in the market.

In this lesson, students will compare and contrast ways in which economists think about entrepreneurship as a wealth creation process to the static models of economic growth beginning with a review of the three factors of production. Students will then read an article by Randall Holcombe on entrepreneurship and economic growth.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 1 – What is Entrepreneurship?

Lesson 2.1 – Value is in the Eye of the Beholder

Lesson 2.2 – Value Must Be Produced

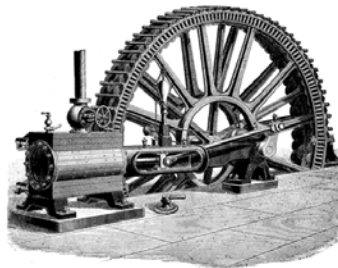
2.5.A – For this activity, review and discuss the following economic concepts as a group [10 min]:

ACTIVITY: The Role of the Entrepreneur in Economic Growth

1. *Three Factors of Production: Economists describe three basic factors of production as the inputs used in the production of goods and services.*

Factors of Production

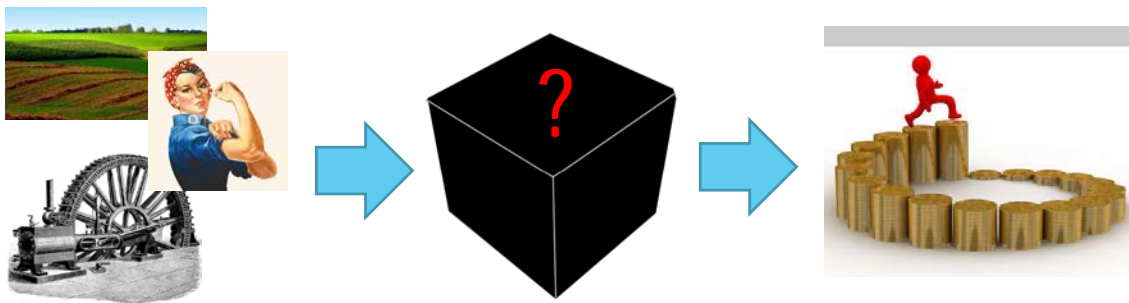
- ▶ **Land** – The natural resources used in the creation of products.
- ▶ **Labor** – The physical and mental human effort used in production.
- ▶ **Capital** – Man-made goods used in the production of other goods (e.g. machinery, tools, and factories).



2. The Classical economists of the 18th and 19th centuries understood economic output as a production function of the factors of production: land, labor, and capital. Inputs are combined to produce outputs. According to the Classical economists, the engine of economic growth is better inputs.

Economic Growth - Classical Model

- ▶ Classical economists understood economic output as production function of land, labor, and capital.
- ▶ Inputs are combined to produce outputs.



- ▶ The engine of economic growth is better inputs...

**But this doesn't leave much room for
the role of the entrepreneur.**

3. The Neoclassical economists of the 20th Century emphasized the importance of technological changes as driving growth. According to the Neoclassical models, economic growth depends on advances in technology. As new technology is introduced, the labor and capital inputs are adjusted to maintain growth equilibrium. Technology and innovation are essential for economic growth, but this does not explain the full picture of what we see in the real world.

Technological Innovation and Growth

- ▶ Neoclassical economists emphasize the importance of technological changes as driving growth.
 - ▶ Economic growth depends on advances in technology.
 - ▶ New technology is introduced and the labor and capital inputs are adjusted to maintain growth equilibrium.



These models still tend to focus more on the *inputs* rather than the *process* by which economic growth occurs.

4. *The entrepreneur plays an essential role in economic growth. Entrepreneurship is a process of discovery. Entrepreneurs discover previously unnoticed profit opportunities. The entrepreneur's discovery initiates a process in which these newly discovered profit opportunities are then acted on to bring available resources closer into harmony with the needs of people in society.*

Additionally, entrepreneurship creates opportunities for more entrepreneurship. Entrepreneurial discoveries and insights build on one another to create new and better products and processes. This is the ongoing process that leads to economic growth.

Role of the Entrepreneur

- ▶ An entrepreneur is a person who seeks to earn profits by finding new ways to organize factors of production.
- ▶ Entrepreneurship is an ongoing process.
 - ▶ Entrepreneurship is the essential foundation for economic growth.
 - ▶ Entrepreneurship generates more entrepreneurship!
- ▶ Economic growth can be largely attributed to environments that encourage entrepreneurship:
 - ▶ *"...between one-third and one-half of the differences in economic growth rates across countries can be explained by differing rates of entrepreneurial activity. Similar strong results have been found at the state and local levels."* - Russell S. Sobel, [Entrepreneurship](#)



2.5.B – Read the first half of the article up to the section titled “Implications for Kirzner’s Model of Entrepreneurship,” skipping the section “The Production Process.” Use the questions below to guide your discussion [35 min]:

Teacher Tip: This article is somewhat advanced and a bit technical. Some parts may be difficult to understand, but encourage students to focus on understanding the general difference between “the inputs” and “the processes” driving economic growth.

The remainder of the article can be assigned to students as an optional self-study.

ARTICLE: [Entrepreneurship and Economic Growth](#) – by Randall Holcombe (mises.org)

“What causes economic growth? At the risk of some oversimplification, the answers economists have given to this question can be divided into two broad camps, one following the ideas of Adam Smith (1776) and the other following the ideas of David Ricardo (1821). Smith, whose overriding goal was to understand the wealth-creation process, began his treatise with the lesson that the division of labor is limited by the extent of the market. As markets grew, entrepreneurship would lead to innovation, which would lead to an increasing division of labor and increased productivity. Ricardo, in contrast, envisioned economic output as being a function of the inputs of land, labor, and capital.”

DISCUSSION QUESTIONS: Entrepreneurship and Economic Growth

1. *Contrast Adam Smith’s (1776) and David Ricardo’s (1821) visions of what creates economic growth.*
 - a. In short, Ricardo focuses on the inputs whereas Smith focuses on the process.
 - b. Ricardo envisions economic output as being a function of the inputs of land, labor, and capital. Since the factors of land are limited, Ricardo thinks population growth largely dominates economic growth. Thus, the potential for economic growth is ultimately limited by the availability of economic resources.
 - c. Smith believes wealth creation is a process. As markets grow, entrepreneurship and innovation lead to an increasing division of labor and increased productivity. For Smith, the potential for economic growth is virtually unlimited.

2. Explain the two shortcomings of analyzing economic growth using a traditional neoclassical (general equilibrium) framework as described in the section title “The Process of Entrepreneurship.”
 - a. First, the equilibrium models are not well suited for depicting the process of introducing new products and processes into the economy. “In the neoclassical framework, growth occurs by producing more of the old goods.”
 - b. Second, they do not depict the entrepreneurial discovery process where unnoticed profit opportunities entice innovation. In real life, entrepreneurs are often seeking to produce products that have never been produced or looking to enter markets that do not even exist.

3. *How do Israel Kirzner's insights about entrepreneurship, as this author describes, "provide an engine to drive Smithian growth?"*

- a. Kirzner describes entrepreneurship as the process of discovering and acting upon unnoticed opportunities.
- b. Acting on entrepreneurial insights of unnoticed profit opportunities, entrepreneurs produce more of what consumers want at lower cost. In doing so, entrepreneurs make the economy more productive.
- c. The previously unnoticed opportunities have to come from somewhere, and the most common source is the insights of other entrepreneurs!
- d. "Acts of entrepreneurship create an environment within which innovations build on themselves, leading to continually increasing productivity."
- e. Entrepreneurs combine ideas from earlier entrepreneurs to produce new processes or products. For example, "Steve Jobs could not have built a personal computer had not Gordon Moore invented the microprocessor."
- f. A free market that encourages entrepreneurship is conducive to economic growth.

4. *In what ways do entrepreneurial insights build on one another leading to more entrepreneurship and ultimately to economic growth?*

- a. Entrepreneurship creates opportunities for more entrepreneurship. Entrepreneurial discoveries and insights build on one another to create new and better products and processes. Entrepreneurial activity is dynamic and leads to changes in the economic environment, creating new profit opportunities.
- b. Entrepreneurship generates wealth and increase the volume of goods produced. This creates the opportunity for greater specialization and more entrepreneurship.
- c. Entrepreneurship creates new market niches that go along with innovation. This creation of new markets is the key link between entrepreneurship and economic growth.

Lesson Recap

- David Ricardo envisions economic output as being a function of the inputs of land, labor, and capital. The traditional classical and neoclassical production process models do not sufficiently account for the role of the entrepreneur.
- Adam Smith believes wealth-creation is a process.
- “The engine of economic growth is not better inputs, but rather an environment in which entrepreneurial opportunities can be capitalized upon....the straightforward prescription for economic growth is to create an institutional environment that encourages markets and rewards productive activity.” – Randall Holcombe
- “Entrepreneurship is the foundation for economic growth. Entrepreneurial insights lay the foundation for additional entrepreneurial insights, which drive the growth process.” – Randall Holcombe
- Entrepreneurship leads to more entrepreneurship:
 - ✓ Entrepreneurship alters the economic environment, creating new profit opportunities
 - ✓ Entrepreneurial activity generates wealth
 - ✓ Entrepreneurial insights create new market niches
- “Increasing returns occur because the more entrepreneurial activity an economy exhibits, the more new entrepreneurial opportunities it creates.” – Randall Holcombe

Additional Resources

ARTICLE: [Education, Creativity, and Prosperity: East versus West](#) by Christopher Lingle (FEE.org)

“Educational systems that encourage a submersion of the individual in a collective (such as the Confucianist-inspired notions of “society above self” and unquestioning acceptance of authority) will unavoidably inhibit the emergence of indigenous entrepreneurs. These individuals are a key ingredient for sustained economic progress through creative and independent thinking. By definition, their search for profit opportunities requires that they constantly take risks and undertake challenges to the economic order and, if need be, to the political status quo.”

ARTICLE: [Entrepreneurs Make Science Work](#) by Matthew McCaffrey (FEE.org)

“In other words, if we are going to be serious about scientific progress, we have to realize it goes hand in hand with entrepreneurial progress. When barriers to entry are eliminated and individual sovereignty rules the market, entrepreneurs can increase welfare using whatever scientific means are at hand. What’s more, their success in turn encourages the production of more and better research.”

ARTICLE: [How Cities Put the Brakes on Taxicabs](#) by Samuel R. Staley (FEE.org)

“The lifeblood of any economy is its people. Human progress ultimately springs from the inspiration of people who transform their ideas into goods and services that others can use every day. That is why entrepreneurship is critical to the success and growth of a community and economy.”

VIDEO: [“The Role of Entrepreneurship After a Natural Disaster”](#) (The Mercatus Center, 9:36 min)

“Virgil Storr discusses the role of entrepreneurship after a natural disaster for the New Media Project at Universidad Francisco Marroquín.”

ARTICLE: [“Entrepreneurship is the Key to Economic Growth and Job Creation”](#) by John Dearie (The Manhattan Institute)

“To tackle many of our nation’s most pressing challenges—the ongoing jobs crisis, our long-term debt, stagnant middle-class wages, the income and opportunity gaps—America needs faster economic growth. Start-ups drive innovation, which drives productivity, which drives economic growth.”

ARTICLE: [“Entrepreneurs Have the Potential to Create 10 Million Youth Jobs in G20 Countries, New Accenture Research Finds”](#) by Matt Samuel (Accenture)

“As business leaders seek growth, they are increasingly finding the need to look beyond their shores and beyond their existing products and services,” Berthon said. “This underscores the importance of policies that support risk and enterprise as a route to sustainable economic recovery in many markets that are experiencing sluggish growth today. More countries are adopting entrepreneur-friendly policies, but many of these policies are still largely fragmented, and many of the entrepreneurs we surveyed consider them insufficient. Entrepreneurs are seeking a simplified regulatory environment that encourages open innovation, and offers them a combination of tax incentives and access to better and more flexible financing.”

WEBSITE: [HumanProgress.org](#)

“Explore the state of humanity with data, charts, and maps.”

MODULE 3 – HOW CAN ENTREPRENEURS USE ECONOMICS TO MAKE BETTER DECISIONS?

"Economics is everywhere, and understanding economics can help you make better decisions and lead a happier life."

- TYLER COWEN

Overview:

We live in a world where our resources are limited compared to our wants. Because we are faced with the fundamental economic problem of scarcity, we have to make choices that involve tradeoffs. This series of lessons provides an introduction to the basic economic concepts of scarcity, choice, decisions made at the margin, and opportunity cost. Economic thinking provides a set of tools that helps you make better decisions and enables you to better understand the choices of others. Entrepreneurs who use these critical thinking tools are in a position to make better choices about their business.

Concepts and Terms:

- Benefits
- Choice
- Cost
 - Transaction Costs
 - Opportunity Costs
- Decisions at the Margin
- Marginal Utility
 - Marginal Cost
 - Marginal Benefit
- Scarcity
- Subjective Value
- Sunk Costs
- Tradeoffs
- Value

Objectives:

Students will be able to...

- Define scarcity and opportunity cost
- Recognize that individuals face the problem of scarcity in deciding how to allocate their resources, including their time
- Identify that all economic choices involve tradeoffs and explain the opportunity cost associated with a given choice
- Explain what it means that decisions are made at the margin
- Demonstrate the ability to identify the anticipated costs and benefits of alternatives when making decisions

LESSON 1 – SCARCITY, CHOICE, AND TRADEOFFS

Description:

Scarcity exists because we have limited resources to satisfy an unlimited number of wants and needs, with time being our most scarce resource. Every decision and choice we make involves tradeoffs.

In this lesson, students will read a brief description of the fundamental economic problem of *scarcity*. Next, students will watch a humorous video about the tradeoffs involved with difficult decisions. Finally, in a brief activity, students will make choices about their business based on the expected costs and expected benefits. This activity builds on the business idea they selected in the *Activity 1.3.B - Serving Others in Your Community*.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Whiteboard (or poster board) to record values

Prerequisites:

Module 1 – What is Entrepreneurship?

3.1.A – Read and discuss the following article using the questions below to guide your discussion [20 min]:

ARTICLE: [Scarcity](#) by Russell Shannon (FEE.org)

"Scarcity comprises two integral and conflicting aspects—unlimited human wants and limited resources... We cannot satisfy all our desires. We all are always forced to choose. That's why we call economics 'dismal.' What should we choose? How should we go about making choices? First we must understand the underlying essence of scarcity."

DISCUSSION QUESTIONS: Scarcity

1. *Why do individuals have to make choices?*

- a. We live in a world of limited resources that have alternative uses. Our wants and needs are virtually unlimited.
- b. The existence of scarcity means that we have to make choices because not all of our desires can be satisfied at the same time.

2. *Will it ever become possible for society to become so wealthy that we no longer face the problem of scarcity?*

- a. No. Scarcity exists because human wants exceed what can be made from the available resources at any given point in time. We can better use our resources to become wealthier and raise our standards of living, but it is not possible for humans to eliminate the problem of scarcity.
- b. Professor Shannon explains, "...scarcity is a pervasive, universal problem that no one can duck. Just like air, scarcity is everywhere.... We cannot satisfy all our desires. We all are always forced to choose."
- c. Even if we had an infinite abundance of material resources, our time is still a scarce resource and we will still face the problem of scarcity.

3. *All economic questions arise from the problem of scarcity. We must make choices about how to allocate those resources. But, the important question is, who should choose? Should individuals make choices for themselves or should we have a centralized coordinating committee to make important economic choices?*

- a. Scarcity requires that people must make choices about using resources to satisfy wants. As we learned in Lesson 2.1, value is in the eye of the beholder. Another way to say this is that economic value is subjective. People's wants and needs are very different and constantly changing.
- b. Professor Shannon explains, "Surely a committee could not comprehend the vast variety of human wants. It would inevitably ignore individual idiosyncrasies."
- c. Countries that employ more centralized decision making tend to have lower standards of living and fewer opportunities.
- d. A market where individuals are left free to pursue their own choices is the "social mechanism most conducive to the development of man's abilities and resources."
- e. "Allowing for free and open competition seems to be both a surer and a safer way to satisfy the diverse wants of man."

3.1.B – Watch and discuss the following video about choices and tradeoffs using the questions below to guide your discussion [5 min]:

VIDEO: [Marshmallow Test](#) (Absa Bank, 1:58 min)

This popular test challenges several children by asking them to make a choice between eating a marshmallow now or delaying their gratification and receiving an additional marshmallow for their patience. This video is an entertaining illustration of the tradeoffs that come with the choices we make.

Discussion Questions: Marshmallow Test

1. Use the economic concepts of scarcity, value, choice, and tradeoff to explain the Marshmallow Test video.

- a. Scarcity is the fundamental economic problem of having unlimited wants in a world of limited resources. In this video the children were given one marshmallow, but judging from their reactions, it seems they all struggled with the self-discipline necessary to delay their gratification.
- b. Scarcity forces us to choose among alternatives. In the video, the children were made to choose between one marshmallow now or two marshmallows later.
- c. Value is subjective. Some people may prefer one marshmallow now and avoid the discomfort of having to wait. Other people may prefer waiting in order to get two marshmallows. People make choices based on what they believe to be the expected costs and benefits of the alternatives.
- d. All choices involve comparing the expected value of one opportunity against the expected value of the alternative.
- e. All choices have a cost. You can't have your marshmallow and eat it too!

3.1.C – Complete the following activity and share your ideas with the group [20 min]:

ACTIVITY: Making Decisions When Planning Your Business

We live in a world of scarce resources that have alternative uses. This scarcity necessitates that we make choices. Our desires cannot all be satisfied at once, and we have to make choices based on the expected costs and expected benefits between available alternatives.

For this activity, select a business you think you might like to start. If needed, go back to your list of business ideas you identified in *Activity 1.3.B - Serving Others in Your Community*.

There are many decisions that must be made when starting a business, and your money and time are both limited. Consider the tradeoffs and complete the following two tables with how you plan to allocate your money and time.

1. *Imagine you have \$100 to start your business. How will you choose to allocate your money between various business expenses? You may choose from the following list or use your own:*

- Marketing
- Advertising
- Materials/Supplies
- Equipment
- Office Space
- Phone/Internet Access
- Licenses
- Inventory
- Insurance
- Hire Website Designer
- Manufacturing
- Distribution
- Hire a salesperson

Business Expense	\$ Amount

\$100

B) Imagine you have 10 hours each week to work on your business. How will you choose to allocate your time? Remember, you can do things yourself or hire people to help you. Below are some examples or you may choose your own:

- Market Research
- Create Website
- Make Products or Goods to Sell
- Distribution
- Sales
- Print Materials
- Resume Research/Hire Employees
- Apply for licenses
- Networking
- Marketing/Advertising
- Attend Classes
- Learn Professional Skills

Weekly Activities	Time
	10 hours

C) Given the constraints of this activity, what were the main factors that influenced the business expense allocations and weekly activities you chose? Explain your decision using the concepts of scarcity and tradeoffs. What activities would you like to have been able to include if you had more time or money?

Lesson Recap

- Scarcity exists because we have limited resources to satisfy an unlimited number of wants and needs.
- We are forced to make choices about how to use our scarce resources, including our time. In fact, time may be our most scarce resource. All choices we make have consequences that affect our future.
- All choices involve tradeoffs. Effectively weighing the costs and benefits between available choices is the key to economic decision-making.
- It's important to have and practice self-discipline as a key trait for building success.

Additional Resources

VIDEO: [Don't Eat the Marshmallow!](#) (TED Talks, 5:54 min)

“Joachim de Posada further discusses the marshmallow test and the number one trait for success: being able to delay gratification.” His point is that we, in the US, are “eating more marshmallows than we are producing” and we must all learn and practice self-discipline.”

ARTICLE: [Entrepreneurs in Africa find Opportunity in Scarcity](#) (Entrepreneur.com)

“A true entrepreneur sees opportunity in scarcity and innovates accordingly...Here's a look how promising entrepreneurs are bringing innovations to one of the poorest countries in the world.”

ARTICLE: [Scarcity](#) (Library of Economics and Liberty)

“That you can't have everything you want the moment you want it is a fact of life. Figuring out how individuals, families, communities and countries might best handle this to their benefit is fundamental to what economics is about.”

LESSON 2 – THINKING AT THE MARGIN

Description:

When making a decision, we don't typically have to choose between all or none. We typically weigh the costs and benefits of acquiring one additional (or one fewer) unit of a good or service. We usually make our decision about the next increment. This is thinking at the margin.

In this lesson, students will watch a short video introducing the concepts of marginal cost and marginal benefit. Next students watch a video in which Prof. Mario Villarreal-Diaz explains what it means to think at the margin. Students will then read an article that further illustrates the role of marginal thinking in economics. This lesson concludes with an activity which uses marshmallows to illustrate the concept of diminishing marginal utility.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, bag of jumbo marshmallows

Prerequisites:

Lesson 3.1 - Scarcity, Choice, and Tradeoffs

3.2.A – For a simplified explanation of marginal benefit and marginal cost, watch and discuss the following video using the questions below to guide your discussion [5 min]:

VIDEO: [Marginal Benefit and Marginal Cost](#) (Mikayla Kutsuris, 1:45 min)

This video simply and clearly defines the basic concepts of marginal benefit and marginal cost and illustrates these concepts with examples.

DISCUSSION QUESTIONS: Marginal Benefit and Marginal Cost

1. Explain the concepts of marginal benefit and marginal cost. Highlight some examples of when you have used marginal benefit and marginal cost to make a decision recently about whether or not to purchase an additional good.

- a. The video explains “The marginal benefit is the benefit from each additional increment or unit” and “The marginal cost is the cost from each additional increment or unit.”
- b. Consumers will purchase a good only if the perceived marginal benefit to them is higher than the marginal cost they incur from purchasing the good.
- c. If the marginal cost is higher than the marginal benefit the consumer will not purchase the good and put their resources towards something of higher value.
- d. Examples may including deciding whether or not to buy an additional slice of pizza, an additional magazine for a trip, or an additional pair of jeans when shopping, etc.

3.2.B – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Thinking on the Margin](#) by Mario Villarreal-Diaz (Learn Liberty, 4:31 min)

“Why are diamonds more expensive than water? Prof. Mario Villarreal-Diaz answers this question using what economists call marginal analysis. Essentially, the marginal utility of water decreases faster than the marginal utility of diamonds. Put another way, people face decisions in a particular context and time. In modern economies, people have ready access to water on the margin, but do not have the same level of access to diamonds.”

DISCUSSION QUESTIONS: Thinking on the Margin

1. What does it mean to “make a decision at the margin?”

- a. Thinking at the margin means thinking about the next increment or the next unit.
- b. Making decisions involves making comparisons between choices in a specific context and at a specific time.
- c. As explained in the “Choices and tradeoffs are based on comparisons – when trying to decide ‘What is the best choice?’ depends on those comparisons. One alternative versus another alternative.”
- d. When we make choices, we typically don’t have to choose between all and nothing. For example, we don’t have to choose between all the water in the world and no water at all.
- e. When a person makes a decision at the margin it means he or she is weighing the costs and benefits of acquiring one additional (or one fewer) unit of a good.
- f. Note: When consumers make real life decisions they are not usually choosing between just two goods – they are choosing between many alternatives.

2. *Explain the concept of marginal utility. Do you think donuts have increasing or decreasing marginal utility?*

- a. Goods with diminishing marginal utilities are goods that provide less utility with each additional unit.
- b. Marginal utility is the additional benefit (utility) that is provided by an additional unit of a good or service.
- c. One example of diminishing marginal utility is when a consumer decides to eat multiple donuts. If the customer is craving donuts, the marginal utility may be quite high for the first donut. After the sixth donut, the marginal utility of eating a seventh donut is likely much lower.

3. *How does thinking at the margin help entrepreneurs make better decisions?*

- a. When making decisions at the margin, entrepreneurs weigh the costs and benefits of one more or one less. For example, as a business owner you would not choose between hiring zero employees or all the employees in the world.
- b. When making the decision to hire, the entrepreneur compares the marginal cost of one additional employee to the expected marginal benefits that the employee is able to provide.

3.2.C – Read and discuss the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [It's the Margin that Counts](#) by Dwight Lee (FEE.org)

“Marginalism shows how economic reasoning allows us to accomplish more by accepting limits on what can be accomplished—by focusing on marginal (some will say mundane) adjustments to make things better, rather than on more heroic attempts to solve problems totally and completely.”

DISCUSSION QUESTIONS: It's the Margin that Counts

1. Use the economic concepts of “scarcity” and “marginal utility” to explain why water is typically less expensive than diamonds and why nurses are typically paid less than professional wrestlers.

- a. Two main economic concepts explain why diamonds are more expensive than water – marginal utility and scarcity.
- b. Under normal conditions, diamonds are a much scarcer resource than water. Although water is essential to life, it is usually readily available. Diamonds do have qualities people enjoy, but they are not essential to life. However, diamonds are not readily available. This is one factor why diamonds are typically more expensive than water.
- c. Water has a diminishing marginal utility - this means the first bottle of water a person drinks when they are thirsty has more value than the second, the second more than the third and so on. Diamonds however, do not have a diminishing marginal utility – the second and third diamond tend to be just as valuable to a person as the first. Additional diamonds usually do not have less value to a person.

2. What is the difference between marginal value and total value?

- a. Dwight Lee explains “Price reflects the value people place on one or more unit of something (its marginal value), not the value of all of it (its total value).”
- b. As discussed in the article with the example of water and diamonds, the total value of a good can be very high but the price low. The author writes “...because water is plentiful (except in unusual circumstances), the amount people are willing to pay for one more gallon is close to zero – the marginal value of water is low. On the other hand, diamonds are so rare that people are willing to pay thousands of dollars for one more.” Price is a reflection of the marginal value of something, not the total value.

3. *Using the concepts of marginal value and total value, explain why professional wrestlers are often paid more than nurses.*

- a. More people have the necessary skills to become a nurse – the skills for the job can be taught through education, whereas the ability to be a wrestler relies on being born with a certain body type – a trait very few people have. Therefore the supply of potential wrestlers is much scarcer than the supply of nurses.
- b. As Prof Lee explains, “Although the total value of nurses is far greater than the total value of wrestlers, the marginal value of nurses is far less. And it is the marginal value of people in an occupation, not total value, which is important in determining salaries in that occupation.”

4. *Should there be a government-mandated minimum wage for employees with a high total value but low marginal value (e.g. nurses)? What would be the consequences of implementing a mandatory minimum wage?*

- a. Artificially raising the minimum wage of nurses above market prices for nurses could cause the marginal cost of labor to exceed the marginal benefit provided by the employee. As a result, hospitals & health clinics might then try to operate with fewer nurses to reduce costs. In other word, there would be fewer jobs for nurses.
- b. If wages are artificially increased, more people might enroll into courses to become nurses, however fewer would be able to find jobs. This lead would lead to many qualified nurses in the market without jobs and too few nurses working in hospitals.

3.2.D – Complete the following activity and share your ideas with the group [15 min]:

ACTIVITY: Diminishing Marshmallow (Marginal) Utility

The purpose of this activity is to illustrate the concept of diminishing marginal utility. Students will see how, at a certain point, the value of eating an additional marshmallow begins to decrease.

MATERIALS:

- Marshmallows (or donuts or similar food)
- Whiteboard (or poster board) to record values

DIRECTIONS:

1. Ask for three student volunteers to participate in an activity. Seat them at the front of the class. Have another student volunteer to record the values on the board.
2. Ask the volunteers to rate their desire for a marshmallow on a scale of 0-10
3. Ask them to eat one marshmallow and then rate their desire for another marshmallow.
4. Continue to get the volunteers to eat one marshmallow at a time and record their desire for another marshmallow after each marshmallow is eaten.
5. Quickly, the student's desire for an additional marshmallow will decrease because they won't get the same marginal benefit from eating the first marshmallow and eating the 10th marshmallow.
6. Ask the students to graph the values from the board.
7. Hold a class discussion using the questions below.

DISCUSSION QUESTIONS:

1. *What is utility? Did the students get the same utility from the first marshmallow as they did from the last marshmallow they ate?*
 - a. "Utility" refers to the benefit a person experiences from consuming something to satisfy a desire.
 - b. It's unlikely the utility stays the same, because students' hunger and desire for sugar will change.
 - c. Because their hunger/desire for a sweet is reduced early on, and by each marshmallow they eat, the utility—or benefit—of each subsequent marshmallow also typically decreases.
2. *What other examples of diminishing marginal utility can you think of?*
 - a. Multiple bottles of water on a hot day is one example. You might get a lot of value from the first, but after the second or third you probably would not want to keep drinking.
 - b. A smart phone is another example. You might highly value a smart phone, perhaps even a second. But the value of the third, fourth, and fifth smart phone you receive would have less utility to you than the first.

3. *How can entrepreneurs use "thinking at the margin" to make better decisions?*

- When entrepreneurs are making decisions, they typically don't have to choose between all or nothing. For example, they may have to decide whether to produce one more unit or hire one more employee.
- Entrepreneurs can benefit from "thinking at the margin" by understanding and taking into consideration the additional costs and benefits for each additional unit or action to analyze if the decision will be beneficial at the margin.

Lesson Recap

- The marginal utility is the additional benefit that consumers receive when they consume an additional (or one fewer) unit of a good or service.
- Marginal cost is the cost from each additional increment or unit of a good.
- Goods with diminishing marginal utilities are goods that provide less utility with each additional unit consumed.
- Thinking at the margin means thinking about the next increment or the next unit. We usually don't have to choose between all or none of a good. When making decisions, we typically weigh the costs and benefits of acquiring one additional (or one fewer) unit of a good or service.
- “One of the most useful economic concepts is marginalism – the effect of incremental, or small, changes. Marginalism shows how economic reasoning allows us to accomplish more by accepting limits on what can be accomplished – by focusing on marginal (some will say mundane) adjustments to make things better, rather than on more heroic attempts to solve problems totally and completely.” – Dwight Lee

Additional Resources

ARTICLE: [In Praise of Athletes' High Salaries](#) by William Anderson (FEE.org)

“The solution to the paradox came from the “marginalists” of the mid and late nineteenth century, including Carl Menger of Austria, William Stanley Jevons of England, and Jules Dupuit of France. Value, they astutely pointed out, is determined by the usefulness of the marginal available unit of the item in question, or *marginal utility*. An individual imputes value to a particular *unit* of water, not to the overall characteristics of water itself.

ARTICLE: [Take This Job and Shove It, at the Margin](#) by Dwight R. Lee (FEE.org)

“Economists also recognize that while people generally enjoy their work in total, most jobs are a pain at the margin. Even if you get tremendous satisfaction from your job, the marginal satisfaction can be very low, in fact negative. Well before the work day is over, most of us are tired of the grind and would love to leave work early and do something else. We would like to tell the boss, “Take this job and shove it, at the margin.” People put in eight hours of diligent effort because there is a financial inducement to do so.”

ARTICLE: [Margins and Thinking at the Margin](#) (Library of Economics and Liberty)

“What does it mean to think at the margin? It means to think about your next step forward. The word “marginal” means “additional”. The first glass of lemonade on a hot day quenches your thirst, but the next glass, maybe not so much. If you think at the margin, you are thinking about what the next or additional action means for you.”

ARTICLE: [Marginal Analysis – Thinking at the Margin](#) (About Education)

“From an economist’s perspective, making choices involves making decisions ‘at the margin’ – that is, making decisions based on small changes in resources: How should I spend the next hour? How should I spend the next dollar? On the surface, this seems like a strange way of considering the choices made by people and firms...Treating the problem in this matter does have some distinct advantages.”

LESSON 3 – OPPORTUNITY COST

Description:

All choices have a cost. Opportunity cost is simply the next most preferred alternative that is given up when a choice is pursued. When faced with a choice, entrepreneurs should consider the concept of opportunity cost to help inform their decision.

In this lesson, students will watch a video and read an article on the fundamental economic concept of opportunity cost. Students will then complete an activity in which they will apply the concept of opportunity cost.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 3.1 - Scarcity, Choice, and Tradeoffs

Lesson 3.2 – Thinking at the Margin

Lesson 3.3 – Opportunity Cost

3.3.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Opportunity Cost](#) (Learn Liberty, 3:56 min)

“Prof. Mario Villarreal-Diaz explains that scarcity is inherently a part of human life, and how this necessarily implies a world of tradeoffs. In such a world, the pursuit of a choice requires forgoing all other potential choices. Opportunity cost is simply the next most preferred alternative that is given up when a choice is pursued.”

DISCUSSION QUESTIONS: Opportunity Cost

1. *What is the basic economic problem?*

- a. The basic economic problem is the problem of scarcity. There are limited resources to satisfy our unlimited wants.
- b. Because of scarcity, we face the reality that there are limits to what we can do.

2. *What is opportunity cost? Explain the concept using the example of a student attending college.*

- a. Opportunity cost is the value of the best alternative forgone, i.e. what is given up when we make a choice.
- b. Professor Mario Villarreal-Diaz explains it as “The value of what you have to give up in order to pursue a choice.”
- c. If a person chooses to attend college, the opportunity cost would be the next best alternative of how they could have spent their time or money.
 - For example: The student may value working and earning money. If they choose to give this up to attend college the student’s opportunity cost would be money they could have earned from working.
 - If the student valued having leisure time as the best alternative and chose to attend college, their opportunity cost of attending college would be large amounts of free time for leisure.
 - The student may value purchasing a new car as the best alternative to attending college. If they choose to pay for college instead of purchasing the car, the opportunity cost of attending college would be the new car.

3. *What do economists mean when they say all choices have a cost?*

- a. Opportunity cost occurs because we have limited/scarce resources and unlimited wants. We cannot have all of our wants satisfied at once, therefore we choose to satisfy some wants and forgo others. Every time we make a choice about which want to satisfy, we are also choosing what alternatives to forgo in order to satisfy that want. The cost of the choice is the forgone alternative, or what economists call, the opportunity cost.
- b. Professor Mario Villarreal-Diaz explains, “Economists aim to understand how people make tradeoffs when they are faced with different choices and committing themselves to a different course of action.”

3.3.B – Read and discuss the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Opportunities and Costs](#) by Dwight Lee (FEE.org)

“Because of scarcity, everything we do involves sacrifice....Only when the costs of choices are imposed on those who make those choices can we best use the opportunities available.”

DISCUSSION QUESTIONS: Opportunities and Costs

1. *What does the author mean by the statement “The bright side of costs is the opportunities that create them?”*

- a. Having more economic freedom increases the choices and opportunities available for people and thereby increases opportunity costs. This is not a bad thing! It just means that people have able to choose between better alternatives.
- b. Professor Lee explains, “The limits of scarcity create costs only when there are opportunities.”
- c. Every choice has an opportunity cost. If people did not have to make choices, they would incur no costs but would also be worse off. For example, if “I am forced to live in a particular house, take a particular job, marry a particular woman, and consume a set bundle of goods, I incur no costs when I do those things.”

2. *What are special interest groups?*

- a. Special interest groups seek to acquire benefits for themselves paid for by the general public.
- b. They are people or organizations seeking or receiving special advantages, typically through political lobbying (someone trying to persuade legislators to support a business or a cause).
- c. Attempts by organized groups to capture more public money.

3. *When special interest groups lobby for political favors from government, why might they prefer we ignore the opportunity costs associated with their receiving of those special benefits?*

- a. All money the government provides to special interest groups must first be taken from the productive private sector in the form of taxes. For every political program that is funded, something else we value now cannot be funded. Special interest groups prefer that we do not consider the alternative ways our scarce resources might be used in attempt to capture a larger share of money for their own benefit.
- b. There are no perfect solutions to the challenges we face. All solutions involve tradeoffs. When alternatives are poorly considered, resources are directed away from productive activities and into less productive, politically favored, activities. Opportunity costs should always be considered so we can make more informed decisions about ways to use scarce resources in ways we value, especially when it comes to handing out political favors.

3.3.C – Complete the following activity and share your ideas with the group [20 min]:

ACTIVITY: Everyday Costs and Benefits

Every decision we make entails benefits as well as costs. These costs take two forms: a *transaction cost* is one involved in the actual performing of an action (for example, going to the grocery store: the cost of gas to get there and the cost of your groceries), and *opportunity cost* refers to the value of the next-best alternative that was given up with you make a choice.

In this activity, students will list the typical activities they engage in after school on a regular basis. Students should then list the transaction costs, benefits, and opportunity costs of each activity (the table below is a suggestion for how they can make their lists). Students will have 10 minutes to make their lists.

Teacher Tip: Remind the students to consider what they could be doing to develop their business ideas from Module 1, Lesson 3.

	Activity	(Transaction) Costs	Benefits	Opportunity Costs
1				
2				
3				
4				
5				

Teacher Tip: In the remaining ten minutes of class, ask students to share some of their most interesting or humorous examples of opportunity costs. What, if anything, could they give up to focus on developing their business instead? What would be the opportunity cost of that choice?

Lesson Recap

- Every decision to use a scarce resource has a cost. The cost is the value of the next highest alternative that has to be foregone as a result of your decision. In other words, the opportunity cost is the value of the best alternative forgone.
- Scarcity is an unavoidable part of life. We live in a world where we are forced to make choices, and these choices always involve tradeoffs.
- The evaluation of choices and opportunity costs is subjective. Individuals have different values and preferences. As a result, opportunity costs are unique for each individual decision.
- Opportunity costs should always be considered so we can make more informed decisions about ways to best use our scarce resources, including our time.

Additional Resources

ARTICLE: [Private Property and Opportunity Costs](#) by Dwight Lee (FEE.org)

“Private property is essential to the cooperation that emerges from market interaction, because it ensures that people consider the opportunity cost of their actions. It is both sad and ironic that so many people blame private property for problems that exist because of the lack of private property.”

ARTICLE: [The True Price of a Hybrid](#) by Paul Cwik (FEE.org)

“Environmental economics is a fascinating field. It attempts to assure that people confront the full costs of their decisions about what to produce and what to buy. Better than any government bureau, the price system communicates which methods of production are least costly. If we want to be environmentally friendly, all we need do is follow the market and compare total costs. The market abhors waste.”

PODCAST: [Ticket Scalping and Opportunity Cost](#) EconTalk (29:45 min)

“Michael Munger of Duke University and Russ Roberts talk about the economics of ticket scalping, examining our reactions to free and found goods, gifts, eBay, value in use vs value in exchange, and opportunity cost.”

ARTICLE: [Getting the Most Out of Life: The Concept of Opportunity Cost](#) by Russell Roberts (Library of Economics and Liberty)

“To get the most out of life you have to think like an economist, you have to know what you’re giving up in order to get something else.”

ARTICLE: [Opportunity Cost](#) by David R. Henderson (Library of Economics and Liberty)

“When economists refer to the “opportunity cost” of a resource, they mean the value of the next-highest-valued alternative use of that resource. If, for example, you spend time and money going to a movie, you cannot spend that time at home reading a book, and you can’t spend the money on something else. If your next-best alternative to seeing the movie is reading the book, then the opportunity cost of seeing the movie is the money spent plus the pleasure you forgo by not reading the book.”

LESSON 4 – DECISION-MAKING TECHNIQUES FOR ENTREPRENEURS

Description:

Being able to make good decisions is an important skill for an entrepreneur. Good decisions don't just come by luck. Entrepreneurs can use proven techniques to practice making smarter decisions.

In this lesson, students will read and discuss two articles about tips and tools entrepreneurs use to make decisions. Students will then use their decision-making skills to complete the “Your Business Priorities” activity.

Time:

45 min

Required Materials:

Internet access, writing instrument

Prerequisites:

None



3.4.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Tips to Improve the Decision Making Process](#) (Comm Lab India, 4:47 min)

DISCUSSION QUESTIONS: Tips to Improve the Decision Making Process

1. *What is decision making? What are the two main types of decisions and what are the differences?*
 - a. According to the video, decision-making is “a mental process wherein individuals evaluate the options available to them and choose the one that best suits their needs.”
 - b. The two main types of decisions are programmed decisions and non-programmed decisions.
 - a. Programmed decisions are generally standard decisions that need to be made on a regular basis and do not require much analysis.
 - b. Non-Programmed decisions are generally new or unique decisions that need to be made. Examples include moving into a new market or developing new business strategies.
2. *According to the video, what are the necessary steps necessary for decision-making?*
 - a. Decide on your main purpose or goal you are trying to achieve and make sure it is a clear goal.
 - b. Gather all the pertinent information you will need in order to make an informed decision.
 - c. Develop all the different options or alternatives available to you.
 - d. Compare the alternative solutions and weigh their pros and cons of each option.
 - e. Commit to a decision and follow through on that decision.
3. *According to the video, what are the benefits of good (rational) decision-making?*
 - a. Quick decision-making
 - b. Better utilization of resources
 - c. Ability to face new challenges or problems
 - d. Achieve end objectives
 - e. Facilitate innovation
 - f. Motivation of employees (both financially and non-financially)
4. *What are some useful tips if you are unsure about a decision?*
 - a. Ask for advice.
 - b. Ensure you have gathered all the pertinent information.
 - c. List all options and their consequences.
 - d. Be confident once you decide on an action.
 - e. Collect feedback regarding your decision.
5. *What are some common pitfalls to avoid when making decisions?*
 - a. Entrepreneurs must make many new decisions when starting a business.
 - b. Don't let pressure get to you. This can lead to you making a rash decision in haste without putting forth the necessary time and thought.
 - c. Decisions should be made based on a rational thought process and not on emotions.

3.4.B – Read and discuss the following article using the questions below to guide your discussion [20 min]:

ARTICLE: [Decision-Making Techniques and Tools](#) by Chad Brooks (Business News Daily)

“When running a business, making the right decisions can lead to success, while making the wrong ones can result in failure. With so much riding on each decision, it’s important that thoughtful consideration is put into each one that needs to be made.”

DISCUSSION QUESTIONS: Decision-Making Techniques and Tools

1. According to this article, there are a wide variety of decision-making techniques and tools, but many tend to revolve around the same key principles. What are they?

- a. Figuring out which decision needs to be made.
- b. Considering and researching the options.
- c. Reviewing the decision once it's been made.

2. According to the University of Massachusetts-Dartmouth, there are 7 steps that students are advised to take when making decisions. What are these steps?

- a. Identify and clearly define the nature of the decision that must be made.
- b. Gather relevant information (from within yourself as well as outside sources).
- c. Identify all possible and desirable alternatives.
- d. Weigh the evidence.
- e. Choose among alternatives.
- f. Implementation; Take positive action.
- g. Review decision and consequences (repeat steps if not “solved”).

3. What are some of the tools you can use to help you make better decisions?

- a. **Decision-Making Matrix:** A chart where you list all of the options in one column and all of the relevant factors in the top row. You fill out the chart by assigning numbers reflecting the importance of each factor to each option. A final score is tallied to determine the best option.
- b. **T-Chart:** A chart where you weigh the pros and cons of an option. Similar to cost-benefit analysis.
- c. **Decision Tree:** A graph where you "map out" each choice and its likely results.
- d. **Multivoting:** Getting multiple people's input to gradually eliminate options before settling on one.
- e. **Cost-Benefit:** Considering the likely costs and income generated from choosing a particular option; only choosing those options where the income is greater than the costs.

4. *What are some of the common mistakes in decision-making? Can you think of any mistakes other than the ones mentioned in this article?*

- a. Sometimes people rely too much on outside help or “experts.” These “experts” are humans who come with their own set of biases and prejudices. Keep perspective on advice.
- b. According to the article, failing to trust your gut instincts and/or reactions can lead to big mistakes. “Our society teaches us to ignore these feelings, but by tuning into your intuition, you will find that you will make much better decisions in the long run.”
- c. Sometimes entrepreneurs do not want to admit they are wrong. Be open to changing your mind if the evidence leads you to a different conclusion than the one you were expecting.
- d. Never rush into a decision. Sometimes it’s helpful to “sleep on it” in order to give yourself time to process all the information.
- e. Procrastination can also be a problem, so don’t put the decision off. Take just enough time until you’re comfortable with your decision and then take action.

3.4.C— Complete the following activity and share your ideas with the group [20 min]:

ACTIVITY: Time to Decide!

In this activity, students will break up into groups of no more than 6 and will listen to various scenarios in which an entrepreneur must make decisions about her ice pop business. Students will then consider what things the entrepreneur should take into account when making her choice.

Directions:

Present the following background to the students. For each scenario, give the students 4 minutes to discuss the choice among themselves, then take a few minutes to discuss how the students arrived at (which) choices.

Background:

Ally just opened an ice pop stand and is making decisions about her business. Consider the following choices Ally needs to make and discuss with your group what you think the best choice is and be ready to explain why. Use decision-making techniques learned in this lesson and apply economic concepts you learned in Lesson 1-3 in Module 3 (e.g. scarcity, choice, tradeoffs, opportunity cost, and thinking at the margin).

Scenario 1:

Ally is considering offering ice cream sandwiches in addition to ice pops. She can produce 100 ice pops in one hour, or she can make 50 ice cream sandwiches in one hour.

1. *What should she consider when making her decision?*

- a. Ally should consider the opportunity cost is for each alternative. Producers should choose to produce products with the lowest opportunity cost.
 - For ice pops: 50 ice cream sandwiches
 - For ice cream sandwiches: 100 ice pops
- b. Ally should consider if her customers are likely to prefer having a variety of goods to choose from, or if they would prefer one product over another. An entrepreneur needs to always think about how to create the most value for their customers.
- c. She may want to start with a small test of her market.
- d. She should consider the expected costs and revenues for the ice cream sandwiches and the ice pops to see which is more profitable.

Scenario 2:

Ally wants to spread awareness of her new ice pop stand and has been thinking of ways to promote it, but she has to choose between working on advertising and making the ice pops; she cannot do both at the same time.

2. What things should Ally consider when deciding how to use her time?

- a. The scarcity of time and the tradeoff (measured in value created) she would make between advertising and producing ice pops. Because time is scarce, it is important that an entrepreneur uses their time in ways that create the most value for their business.
- b. Ally should consider which activity brings more value to her business, producing pops or advertising? She will have to compare the money she makes selling pops to the expected money made from increasing her customers due to advertising.
- c. If producing pops makes more money, then she should focus on that and leave the advertising to someone else.
- d. She may want to consider using some of her time to advertise her product and some of her time making the ice pops. She does not have to choose all or nothing. She should use thinking at the margin to find the right balance of production and advertising.

Scenario 3:

Ally's ice pop business has been an astounding success, but the summer is coming to a close and the weather is beginning to cool down. Ally is confident that her customers will keep buying her ice pops, but she notices more and more people walking around with cups of hot coffee.

3. What should Ally consider when deciding what products to serve?

- a. In order to make a profit, a business owner needs to create value for his or her customers. This means entrepreneurs need to constantly seek out information about what their customers would find valuable.
- b. Entrepreneurs need to be able to adapt to changing circumstances, whether it's a new product or technology, a change in tastes, or even changing seasons!

Lesson Recap

- The key principles of good decision-making techniques are figuring out what decision needs to be made, considering and researching options, and reviewing the decision once it's been made.
- Never rush into a decision. Sometimes it's helpful to “sleep on it” in order to give yourself time to process all the information.
- Procrastination can also be a problem, so don't put the decision off. Take just enough time until you're comfortable with your decision and then take action.
- Entrepreneurs can use proven strategies and economic thinking to help make better decisions.

Additional Resources

VIDEO: [4 Ways Economists Think We're All Wrong](#) (Learn Liberty, 1:20 min)

“How much does the average person know about economics? How about trade and immigration? Economists claim to know a great deal about these topics, and study them in depth. And while they often disagree with each other, most economists agree a lot more with each other than they do with the public. So why do democratic citizens tend to reject what economists say? Are there certain biases that make democracies choose bad economic policies?”

ARTICLE: [57 Cognitive Biases That Screw Up How We Think](#) (businessinsider.com)

“Understanding these biases is key to suppressing them — and needless to say, it is good to try to be rational in most cases. How else can you have any sort of control over investments, purchases, and all other decisions that you make in your life?”

ARTICLE: [Richard Branson on Decision-Making For Entrepreneurs](#) (entrepreneur.com)

“Most good chief executives or entrepreneurs only make three or four key decisions every year. Running your business's day-to-day operations and managing your team can take much of your time, so there are usually only a few that stand out -- the game-changing decisions that can make or sometimes break a business.”

ARTICLE: [Decision Making Checklist for Entrepreneurs](#) by Tito Philips (naijapreneur.com)

“An entrepreneur's decisions affect the success of his products, the loyalty of his employees and the overall success of his business.”

LESSON 5 – USING ECONOMICS TO MAKE BETTER DECISIONS

Description:

In the previous lessons in this module, we have discussed various economic concepts that are crucial to making good decisions, namely: scarcity, marginal utility, and opportunity costs.

In this lesson, students will use the knowledge they have gained and apply it in an activity called “Find A Better Way” in which they will come up with solutions to contemporary, real-world problems.

Time:

45 min

Required Materials:

Internet access, writing instrument, poster board, markers

Prerequisites:

Lesson 3.1 – Scarcity, Choice, and Tradeoffs

Lesson 3.2 – Thinking at the Margin

Lesson 3.3 – Opportunity Cost

Lesson 3.4 - Decision-Making Techniques for Entrepreneurs

3.5.A – Complete the following activity and share your ideas with the group [45 min]:

ACTIVITY: Find A Better Way

Introduction:

This activity involves students collaborating to brainstorm solutions to real-world problems using the economic concepts they've learned about in this module's earlier lessons. Oftentimes the immediate, popular reaction to a problem is to have the government attempt to solve it, but government policies often fail to account for economic realities, leading to inferior outcomes. Students should think of ways markets can address these problems.

Directions:

Step 1: Students will be divided into groups of no more than 5. Provide poster board and markers to each group. Each group will be assigned a contemporary problem (each problem may be assigned to more than one group for larger classes). Examples of such problems are provided below.

- Constructing and maintaining roads
- Reducing obesity
- Reducing air/water pollution
- Providing airport security
- Preventing the spread of foodborne illnesses
- Providing access to health care for people who can't afford it
- Providing access to education for people who can't afford it

Teacher Tip: Problems should be chosen before the class.

Step 2: Next, ask the students "How can people solve this problem?" Instruct the students to:

- a. Clearly define the problem.
- b. Consider how the problem is currently handled.
- c. Choose and explain a better way to solve the problem.

Additional things for the students to consider include:

- a. What are the seen (direct/obvious) effects of your solution? To whom?
- b. What are the unseen (indirect/subtle) effects of your solution? To whom?
- c. How do the incentives in your solution affect the behavior of those involved?

Step 3: Students will have 25 minutes to discuss possible solutions to their problem. After 25 minutes, each group will select one representative to give a 5 minute speech (with time for questions) explaining his or her group's solution to the problem, being sure to address all of the items listed above.

Lesson Recap

- Every action—and certainly every policy—has both “seen” and “unseen” effects. It is very important to consider both when deciding between courses of action.
- Every course of action is both a response to incentives, and a shaper of incentives. It is very important to consider what kind of actions incentives encourage, as well as what kind of incentives actions encourage.
- Market-based solutions are best able to accommodate economic truths.

Additional Resources

ARTICLE: [Sunk Costs: There's No Crying Over Spilled Milk](#) by Steven Horwitz (FEE.org) – “Understanding that choice is always on the margin and that sunk costs are sunk can help you make better decisions in your personal life and spot fallacious reasoning by politicians. This is just another illustration that good economics is the key to critical thinking and good citizenship.”

MODULE 4 – HOW DOES TRADE CREATE WEALTH?

“Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of.”

– ADAM SMITH, [THE WEALTH OF NATIONS](#)

Overview:

It is still commonly believed that for exchange to occur the goods exchanged must be of equivalent value. Some other people believe the only way for a person to gain from a trade is if someone else is made worse off. However, voluntary exchange only occurs when both people believe they will benefit from the trade. This is correctly seen as an increase in wealth for all parties. This series of lessons focuses on the gains from trade as the net wealth creation that results from individuals entering into voluntary trade. By engaging in specialization and trade, entrepreneurs are able to create far more value for themselves and society than if they were to work in isolation. Economic freedom is a key ingredient for economic and social progress. Students will learn how trade not only creates material wealth but also tends to promote cooperation, peace, and harmony among people.

Concepts and Terms:

- Absolute Advantage
- Barter
- Comparative Advantage
- Competition
- Cooperation
- Civil Society
- Division of Labor
- Gains from Trade
- Incentives
- Market Process
- Property
- Specialization
- Subjective Value
- Trade
- Voluntary Exchange
- Zero/Positive Sum Game

Objectives:

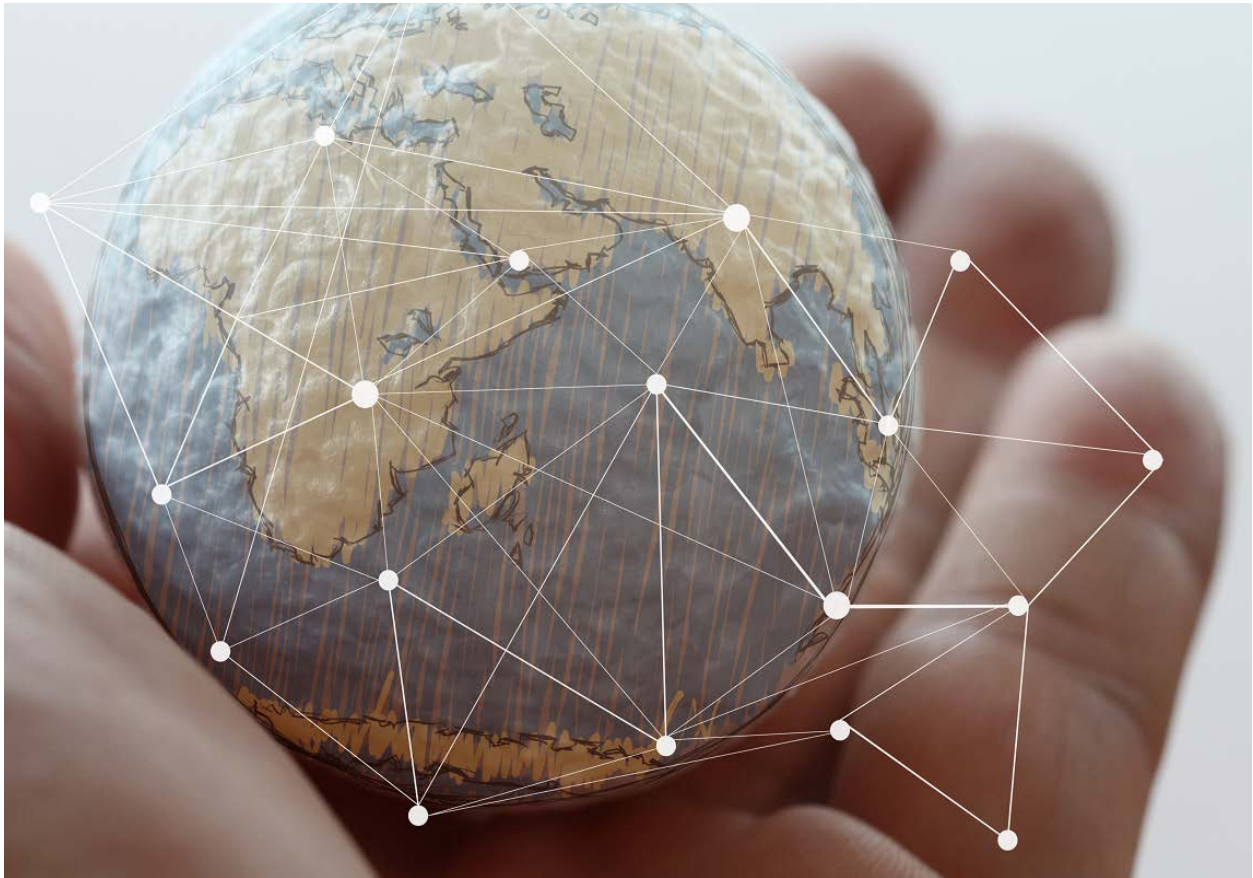
Students will be able to...

- Recognize that trade occurs when both parties believe they will benefit
- Identify the benefits of division of labor and specialization
- Understand comparative advantage and gains from trade
- Explain how competition through the market process incentivizes peace and cooperation

Related Standards:

STANDARD 5: TRADE – 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.

STANDARD 6: SPECIALIZATION – When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.



LESSON 1 – GAINS FROM TRADE

Description:

Trade, or voluntary exchange, happens when all parties involved expect to gain. The power of trade not only increases the wealth of individuals, but also increases the wealth of societies and entire nations.

In this lesson, students will participate in an activity called the *Trading Game* to experience firsthand the power of gains from trade. Before the activity, students will watch a brief video in which announcers and former MLB pitchers John Smoltz and Ron Darling discuss how a recent trade is “win, win.”

Time Required:

45 min

Required Materials:

Trading Game materials (see below), Internet connection, writing instrument

Teacher Tip: Teachers will need to acquire and prepare materials for the Trading Game prior to class.

Prerequisites:

Module 2- What is the Entrepreneur’s Role in Creating Value?

Module 3- How Can Entrepreneurs Use Economics to Make Better Decisions?

4.1.A – [Optional Introduction] Watch and briefly discuss the following video as an introduction to The Trading Game. What does it mean that trade is “win, win?” [2 min]:

VIDEO: [Darling, Smoltz: Zack Greinke trade is a "win, win"](#) (CNN, 1:28 min)

“Ron Darling and John Smoltz agree that the Brewers choice to trade Zack Greinke to the Angels was good for both teams.”

4.1.B – As a group, complete the following activity to illustrate the power of “gains from trade” [45 min]:

ACTIVITY: The Trading Game

The *Trading Game* is one of the most engaging and memorable activities used to teach students about gains from trade. Students learn that voluntary exchange occurs when each person involved in the trade believes he or she will be better off. Wealth, as measure by satisfaction levels in this activity, is created through the magic of trade – yet no new items are produced! Through the *Trading Game*, students witness the power of markets.

Concepts

- Property
- Zero Sum Game
- Positive Sum Game
- Gains from Trade
- Trade
- Voluntary Exchange
- Incentives
- Subjective Value

Required Materials

- A number of small, inexpensive items to use in the *Trading Game*. A variety of items such as toys, candy, stickers, and school supplies works well. The more variety the better! **Note:** Some teachers have also had success asking students to bring in a few small items they are willing to trade. Inexpensive items can be purchased from [Oriental Trading](#).
- Brown paper lunch bags (one per student).
- *Trading Game Spreadsheet*, or tally sheets to count and display results.
- Stopwatch or way to keep time.

Preparation for this Activity:

1. Divide the total lunch bags (one for each student) into four equal groups. Assign each group of bags a color, and mark the bags in the group with the group color (red, green, blue, yellow).
2. Place items for trade in each of the brown paper bags. Introduce variety by placing different items and varying quantities in each bag. The game seems to work well if you concentrate item types by color as well. For example, the red team might have most of the bouncy balls and the green team might have most of the finger traps to simulate comparative advantage.
3. Prepare a score sheet on the board, or prepare the *Trading Game Spreadsheet* to tally and display results.
4. Place bags of like color in each of the four corners of the room.

Directions:

1. To begin the Trading Game, divide the students into four equal groups by color and ask the students to select one bag from their assigned color. Tell your students not to look into the bag.
2. Explain the rules of the *Trading Game* to your students:
 - a. The *Trading Game* will have four rounds, each with different rules. I will explain the rules before each round. Things might get loud and hectic, so I need everyone to pay attention to my instructions.
 - b. At the end of each round we are going to rate your individual satisfaction on a scale of 1 to 5. A score of 1 means you are very unsatisfied and a score of 5 indicates you are very happy with the contents of your bag.
3. Play the *Trading Game* in four rounds using the instruction below.



The Trading Game

Round 1 – No Trade

- a. In Round 1, students have 2 minutes to open their bag to review the contents. Inform students that items in their bag now belong to them. It is their property. Instruct students not to remove items from the bag and not to let anyone else see what they have in their bag.
- b. At the end of 2 minutes, ask students to rate their satisfaction level on a scale of 1 – 5, and record the number of students at each individual satisfaction level. Place the totals on the board or in *Trading Game* spreadsheet.
- c. Calculate the total satisfaction level by adding the products of the level of satisfaction and the number of students (example below), and briefly share the results for Round 1 with the class.

Round 2 – Limited Trade

- a. In Round 2, students have 5 minutes to trade with anyone in their group (e.g. a member of the Green group can only trade with other members of the Green group). Instruct students to make voluntary trades only. They do not have to trade if they are satisfied with the contents of their bag.
- b. At the end of 5 minutes, ask students to rate their satisfaction level on a scale of 1 – 5, and record the number of students at each individual satisfaction level and place the totals on the board or in the *Trading Game Spreadsheet*.
- c. Calculate the total satisfaction level, and briefly share the results for Round 2 with the class.

Round 3 – Expanding Trade

- a. In Round 3, students have 5 minutes to trade with anyone in their half of the room. Members of the Green and Red groups can now trade with each other. Members of the Blue and Yellow groups can now trade with each other.
- b. At the end of 5 minutes, ask students to rate their satisfaction level on a scale of 1 – 5, and record the number of students at each individual satisfaction level and place the totals on the board or in the *Trading Game Spreadsheet*.
- c. Calculate the total satisfaction level, and briefly share the results for Round 3 with the class.

Round 4 – Free Trade

- a. In Round 4, students have 5 minutes to trade with anyone in the room. Free trade!
- b. At the end of 5 minutes, ask students to rate their satisfaction level on a scale of 1 – 5, and record the number of students at each individual satisfaction level and place the totals on the board or in the *Trading Game Spreadsheet*.
- c. Calculate the total satisfaction level, and briefly share the results for Round 4 with the class.

DISCUSSION QUESTIONS: Compile the results from the four rounds and plot the results on a graph for the class. Discuss the results:

1. *Why do people trade?*

- a. People trade when they expect the value of what they are getting from the trade to be worth more than what they are giving up. The upward sloping graph can be described as **gains from trade**. Gains from trade are not a “zero sum” game. When someone trades voluntarily and is made better off, it does not mean that someone else has been made worse off. Trade is a “positive sum” game. Both parties win.
- b. As the size of the trading pool increases and restrictions on trade decrease, we are able to realize greater gains from trade. The more people there are with which we are able to trade, the greater the opportunity for prosperity. Much of the existing poverty in the world today is a direct result of trade restrictions.

2. *Does anyone have a success story they would like to share? (You may try to touch on the points below as students share their stories)*

- a. We learn that people value things differently. They can value the same items very differently, and individual preferences for an item may change over time.
- b. The value of each item is determined by the value an individual places on it. This is what economists call **subjective value**. Sometimes we even see satisfaction levels decrease between Rounds 1 and 2 when students learn what kinds of items other people have.
- c. Sometimes people will trade for something they don't want. They trade for an item because they know that someone else wants it, and they may be able to use the item to get something else they want.
- d. We observe that the more choices people have and the more freedom to trade, the easier it is for people to increase their satisfaction in the marketplace. They increase their satisfaction while increasing the satisfaction of their trading partner at the same time.

3. *Besides people having different values and preferences, what other conditions do you think must be present for trade to flourish?*

- a. **Scarcity**. We only trade scarce items. We don't trade non-scarce resources like the air in the classroom. If we were playing the *Trading Game* while scuba diving then air might be a very valuable scarce resource!
- b. People cannot trade what they do not own. Ownership of **property** is a precondition for trade.
- c. The **rule of law** is also essential. For trade to flourish there must be a legal system that **enforces contracts** fairly and **protects property rights**. People will be less likely to engage in trade if they think their property will be stolen or confiscated. How would different **incentives** have changed your behavior? For example, if I said at the beginning that you don't get to keep the contents of your bag, would you have tried as hard to trade for the things you wanted? What if we had placed taxes on all trades and you had to give up half of your gains from trade?

4. *How is this game different from the real world?*

- a. There was no production in the *Trading Game*. The amount of goods available for trade did not increase. Even with a static amount of “stuff,” we were still able to witness significant gains from trade.
- b. There was no time for significant innovation. We did not have time for entrepreneurs to discover new processes or identify new ways to serve people. We did see people thinking with an entrepreneurial mindset as they found creative ways to trade.
- c. We had to rely on **barter** (the direct exchange of goods for other goods without using money).

5. *What are the main challenges or obstacles that might make trade difficult?*

- a. We don't have access to perfect information. It could be very difficult and time consuming for us to get the needed information.
- b. Transportation costs due to geographic factors could result in high costs associated with trade.
- c. Political barriers increase the cost of trade. Taxes, regulations, and trade quotas make trade more expensive.
- d. Note: Technological advances have helped to reduce both the transportation and information costs associated with trade and have expanded the opportunity for people to create wealth through trade in the global marketplace. Economist Frédéric Bastiat compares government restrictions on trade to a [“negative railroad.”](#) Bastiat argues that governments make trade more expensive by restricting trade in much the same way as if we were to break up the tracks on the railroad we use to transport the goods.

6. *Do you think trade does more to create cooperation or conflict between people?*

- a. Trade encourages cooperation between people. Humans seem to intuitively understand the fact that trade makes us better off. We thrive when we build strong economic and social relationships that leverage the specialized abilities of our friends, family, communities, and other people in the marketplace. Some scholars even suggest that the emergence of “feelings of sympathy and friendship” are rooted in our understanding that we are better off when with economic cooperation. For more information on the topic, see [Competition Is Cooperation](#) by Sheldon Richman in Module 4, Lesson 4.

Sample Trading Game Tally Sheet

Round 1

Happiness Level	# of Participants	Total Happiness
1		
2		
3		
4		
5		

Total:

Round 2

Happiness Level	# of Participants	Total Happiness
1		
2		
3		
4		
5		

Total:

Round 3

Happiness Level	# of Participants	Total Happiness
1		
2		
3		
4		
5		

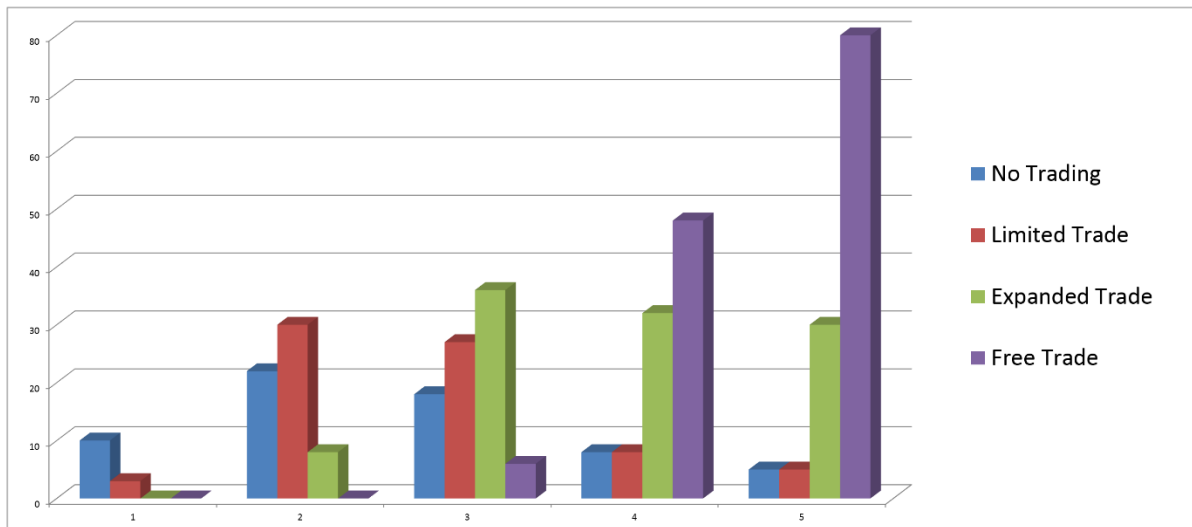
Total:

Round 4

Happiness Level	# of Participants	Total Happiness
1		
2		
3		
4		
5		

Total:

Example chart from the Trading Game Spreadsheet showing gain from trade:



Lesson Recap

- Trade, or voluntary exchange, happens when all parties involved expect to gain.
- Trade creates wealth and directs resources from people who value them less to people who value them more.
- Trade increases the wealth of individuals, societies, and nations.
- Policies and institutions that restrict trade make individuals and societies relatively poorer.

Additional Resources

ARTICLE: [Trade and the Rise of Freedom](#) by Thomas DiLorenzo (FEE.org)

“It is no exaggeration to say that trade is the keystone of modern civilization.... Human beings cannot truly be free unless there is a high degree of economic freedom—the freedom to collaborate and coordinate plans with other people from literally all around the world. That is the point of Leonard Read’s most famous article, “I, Pencil,” which describes how producing an item as mundane as an ordinary pencil requires the cooperation and collaboration of thousands of people from all around the world, all of whom possess very specific knowledge that allows them to assist in the manufacture and marketing of pencils.”

ARTICLE: [Free Trade and the Climb Out of Poverty](#) by Steven Horwitz (FEE.org)

"Progress comes from good policies that let individuals use their local knowledge to their own benefit, and in doing so, unintentionally benefit others. The path toward development requires free trade. To restrict it is to condemn to prolonged poverty those who most need to escape it."

ARTICLE: [Hats Off to Peaceful and Voluntary Exchange](#) by Sarah Skwire (FEE.org)

“Voluntary exchanges make us richer. They also make us kinder.”

PODCAST: [Narlikar on Fair Trade and Free Trade](#) (EconTalk, 1:01:21 min)

“Amrita Narlikar of the University of Cambridge talks with EconTalk host Russ Roberts about fair trade and policy issues related to trade. Narlikar argues – based on a recent article with Dan Kim – that the fair trade movement hurts workers outside of the free trade umbrella and does little for those it is trying to help. She advocates free trade, particularly the elimination of agricultural subsidies in the developed world and the best way to help workers in poor nations. Drawing on a recent article with Jagdish Bhagwati, she criticizes the international response to recent deaths in Bangladesh factories. In the last part of the conversation, she defends the World Trade Organization”

LESSON 2 – WHY WE EXCHANGE

Description:

People voluntarily exchange because it ultimately makes all parties involved in exchange happier and better off. Exchange corrects mistakes in resource allocation by moving things toward higher-valued uses.

In this lesson we expand on the concepts illustrated during the Trading Game in Lesson 4.1. Students will watch and discuss two videos explaining the benefits of exchange. In the first, Professor Michael Munger discusses why we exchange things. In the second video, Professor Bryan Caplan explains how foreign trade creates wealth for all parties involved in the trade. Lastly, students will complete a trading activity reinforcing the concept of the power of exchange.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, item for donation (students will be asked to bring in a small/inexpensive item from home that they no longer need/want that they would consider donating)

Prerequisites:

Lesson 4.1 – Gains from Trade

4.2.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Why Do We Exchange Things?](#) (Learn Liberty, 4:04 min)

“Professor Michael C. Munger explores what makes exchange more equitable than simply giving gifts. He finds that exchange is important for two reasons:

1. It corrects mistakes in allocation by moving things toward higher-valued uses.
2. It makes everyone involved in exchange happier.

Prof. Munger provides a few examples of how exchange can make people better off without changing the total amount of wealth available. Exchange can even make people better off when they have different items and different preferences. This is the power of markets.”

DISCUSSION QUESTIONS: Why Do We Exchange Things?

1. How does exchange make people better off, perhaps even better off than gift giving?

- a. Professor Michael C Munger explains this is important for two reasons. Firstly, exchange corrects mistakes in resource allocation by moving things to higher valued uses. Secondly, exchange makes everyone who exchanges a lot happier.
- b. Professor Michael C Munger provides an example to illustrate the point: “Prisoner’s at the camps received Red Cross packages that contained food, cigarettes, and a few necessities. These were precious supplies in POW camps. At first, prisoners gave away the things they didn’t like, but before long they started trading instead. Radford’s explanation of this behavior may surprise you. Very soon after capture people realized that it was both undesirable and unnecessary in view of the limited size and equality of supplies to give away or to accept gifts or food. Goodwill developed into trading as a more equitable means of maximizing individual satisfaction.”
- c. Voluntary exchange is more equitable than gift giving because when voluntary exchange occurs both parties benefit – otherwise they wouldn’t give up something to acquire something else. However, when someone gives a gift only one person becomes better off.

2. How can people exchange goods to increase well-being without any increase in total resources?

- a. Even with a fixed amount of resources, each voluntary exchange that occurs makes people happier and better off. Exchange moves goods to where they are most valued.
- b. Professor Michael C. Munger explains with an example: “Let’s say we go on a field trip, with boxed lunches that each contain a sandwich, chips, pickle and a cookie. I like chips and you like cookies. I threw in my pickle to get you to agree, and we make the exchange. We’re both happier with our lunches even though we’re dealing with the same amount of food overall.”

4.2.B – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [“Foreigners are our friends”](#) (Learn Liberty, 3:55 min)

“Some people say technology is the driver of innovation, but society often takes great steps in prosperity by trading. Like technological shifts over history, trade is a powerful way of creating wealth for all parties. In one example, Professor of Economics, Bryan Caplan imagines a machine that turned agricultural products directly into cars: it would disrupt the way we do business, but the US would be wealthier for it. If, however, that machine was nothing but a freighter that exchanges corn for cars with another nation, many people think this is unfair. Whether in dislike for foreign trade or worry about immigration, Prof. Caplan calls this “anti-foreign bias” and points out that most economists don’t share these concerns. Professional economists think that trade and immigration benefit all parties involved – just like innovative technology. As we said before: trade is made of win!”

DISCUSSION QUESTIONS: Foreigners are our friends

1. *Why do we underestimate the economic benefits of dealing with people from other countries (anti-foreign bias)?*
 - a. Many people believe that the United States shouldn’t have free trade because other countries don’t.
 - b. People believe that we are somehow better off if we limit trade to just trading within our own country.

2. *What did the 19th century economist, Henry George, say about the idea of “protection” from foreign products?*
 - a. He said that protection from foreign products is a “self-enforced blockade.”
 - b. “It teaches us to do to ourselves in time of peace what enemies do to us in a time of war.”

3. *How is foreign trade a kind of technology? Are there differences in trade if Americans trade with other countries?*
 - a. “When Americans use new technology, we’re better off.”
 - b. “When Americans trade with foreigners, we’re better off and so are they.”
 - c. “From the American point of view, technology and trade are the same.”
 - d. “From the human point of view, trade is better...because trade is made of win.”

4. *How is the concept of foreign trade compared to the concept of immigration?*
 - a. They are the same. “Another name for immigration is trading labor.”
 - b. “Our cost of living goes down; our standard of living goes up.”
 - c. At the same time, foreigners are able to increase their standard of living as well.
 - d. Since both parties are better off, it shouldn’t matter that the other person comes from a different country.

4.2.C - As a group, play the following game which illustrates the power of exchange [20 min]:

ACTIVITY: It's Valuable to Me!

The “magic” power of exchange moves things to higher valued uses and makes people happier. Although it may sometimes appear to be chaotic, this game will illustrate that with the freedom to choose and trade, the final result generally leaves people with a much higher satisfaction level.

Required Materials:

Students are asked to bring in a small/inexpensive item from home that they no longer need/want that they would consider donating.

Directions:

1. Students should first rate the item they brought with a satisfaction level on a scale of 1-5 (1 being the lowest and 5 being the highest).
2. Teacher will number all the items and place them in no particular order in the front of the classroom.
3. Participating students will start one at a time (teacher may have them draw numbers to make it fair) with student #1 choosing any item they wish to keep.
4. The next student (student #2) can choose another item from the front of the room, or trade an item which has already been claimed by student #1, ONLY if that student agrees to make the change. If they mutually agree to exchange, then the game proceeds to the next student (student #3).
5. The third student will choose a new item or make a trade with student #1 or #2.
6. Students will continue choosing until everyone has chosen and all the items are spoken for, pointing out that trade creates wealth by increasing value without needing to create anything new.
7. Ask students if their satisfaction level has improved with their “new” item?
8. At the end of the activity, open up the room for free trade for any students wishing to make an exchange.

Lesson Recap

- Exchange corrects mistakes in resource allocation by moving things toward higher-valued uses.
- Exchange makes all parties involved in exchange happier.
- Exchange can make people better off without changing the total amount of wealth available.
- The power of markets allow for exchange, even if people have different items and different preferences.
- Professional economists think that foreign trade and immigration benefit all parties involved – just like innovative technology.

Additional Resources

ARTICLE: [“Values, Exchange and Profits: The Bedrock of Economic Science”](#) by Frederick Jennings (FEE.org)

“A voluntary exchange, by its own nature, always results in the mutual advantage of both parties, at least in their eyes. In terms of an individual’s hierarchy of values, he will not tend to be willing to accept a lower value in exchange for a higher one. He will only be willing to act if he will be better as a result of the action, i.e. if he will profit by it.”

ARTICLE: [“Why People Trade”](#) by Carl Menger (Mises Institute)

“The most general form of the relationship responsible for human trade is therefore as follows: an economizing individual, A, has a certain quantity of a good at his disposal which has a smaller value to him than a given quantity of another good in the possession of another economizing individual, B, who estimates the values of the same quantity of goods in reverse fashion, the given quantity of the second good having a smaller value to him than the given quantity of the first good which is at disposal of A.”

LESSON 3 – DIVISION OF LABOR AND SPECIALIZATION

Description:

We continue our discussion about the benefits of exchange by taking a deeper look at the concepts of division of labor, specialization, and comparative advantage. Everyone stands to gain from trade. Increased division of labor, specialization, and gains from trade are the keys for unlocking prosperity.

In this lesson, students will watch two videos about the importance of specialization and trade with Professor Art Carden. Next, students will read an article about comparative advantage. Lastly, students are treated to a two-part story called Treasure Island that can be read in class or as a Self-Study assignment.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 2 – What is the Entrepreneur’s Role in Creating Value?

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?

4.3.A – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [Specialization and Trade: Because We Can't Be Good At Everything](#) (Learn Liberty, 2:43 min)

“Free Trade and Comparative Advantage - Professor Art Carden is able to mow his yard, build a fence, and install a faucet all at the same time. How? He does this by specializing through trade. Rather than try to do those things himself—especially since he isn't very good at doing them—he uses the money he earns doing what he specializes in to pay others to mow his yard, build a fence, and install a faucet for him.”

DISCUSSION QUESTIONS: Specialization and Trade: Because We Can't Be Good At Everything

1. *Why should people specialize and trade for the goods and services they need, even if they are absolutely better at everything?*

- a. Professor Art Carden explains specialization: “What's cool is this works even when one person is absolutely better at everything than his or her trading partner.”
- b. Using the example of himself and Wes in the video, Wes can both write economics lectures and mow lawns faster than Professor Carden can do either. Wes can write a lecture in an hour or mow a lawn in 30 minutes. However it takes Professor Carden two hours to mow a lawn or an hour and a half to write a lecture. If they both specialize with Wes mowing a lawn and Professor Carden writing lectures and then trade, they each save themselves half an hour. Gains from trade!
- c. People and countries should specialize in what they are comparatively good at doing (what they can produce at a lower opportunity cost).
- d. By specializing in things where we have a comparative advantage, both parties involved in the exchange can save time and can consume more goods and services than they could without trade. Learn more about [Comparative Advantage](#).

2. *How does trade create wealth?*

- a. In the video, Prof Carden explains that he is not good at cutting grass, building fences or installing faucets. However, in a way, he can accomplish all of these at the same time if he specializes in what he is good at (teaching economics) and trades with others.
- b. If Prof. Art Carden focuses on teaching economics, he is able to pay someone to perform these other services for him. In doing so he saves himself time. Prof. Carden is now wealthier with trade because he is able to consume a wider variety of goods and services in less time than it would have taken for him to produce these things independently.

4.3.B – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [“Trade Is Made of Win,” Part 1: Wealth Creation](#) (Learn Liberty, 2:46 min)

“How does trading make people better off? Economics professor Art Carden explains in this quick lesson on one of the most important concepts in Economics 101.”

DISCUSSION QUESTIONS: Trade Is Made of Win

1. Would you trade with someone if you thought the item you are trading for is worth less to you than the item you currently have? What if you thought the items had the exact equal value?

- a. People do not trade unless they expect to benefit from the trade. In a voluntary exchange, each party values what they receive more than what they give up. There would be no reason to trade if an individual valued two goods to be exactly equal in value.
- b. Some people think that in order for one person to “win” in a trade it means another person must “lose.” Trade is a positive sum game, meaning that both parties win in a trade. Hence the title of this “Trade is Made of Win.”

2. How does trade create wealth, even if no additional goods are produced?

- a. Remember, more wealth doesn't necessarily mean "more stuff." It often means getting stuff into the hands of the people who value it most. Because people value items differently, there can be mutual gains from trade.
- b. All trade participants benefit when people specialize in producing the goods they have a comparative advantage in producing (goods they can produce at the lowest opportunity cost) and then trading with other people for the things they want and need.

4.3.C - Read the following article using the questions below to guide your discussion [15 min]:

Teacher Tip: This article contains slightly more advanced material.

ARTICLE: [Comparative Advantage](#) by Lauren F. Landsburg (econlib.org)

“A person has a comparative advantage at producing something if he can produce it at lower cost than anyone else. Having a comparative advantage is not the same as being the best at something. In fact, someone can be completely unskilled at doing something, yet still have a comparative advantage at doing it! How can that happen?”

DISCUSSION QUESTIONS: Comparative Advantage

1. *What is the difference between having an absolute advantage versus having a comparative advantage?*

- a. A person with an absolute advantage means he or she is best at doing that activity. For example, LeBron James has an absolute advantage playing basketball against just about anyone.
- b. Having a comparative advantage means being able to produce a good or service at a lower cost than anyone else.

2. *Why is the concept of comparative advantage, which David Ricardo illustrates, so crucial to understanding why trade is beneficial to both parties?*

- a. “Comparative advantage explains why a country might produce and export something its citizens don't seem very skilled at producing when compared directly to the citizens of another country!”
- b. “The explanation of the apparent paradox is that the citizens of the importing country must be *even better* at producing something else, making it worth it for them to pay to have work done by the exporting country.”

3. *Use the concept of comparative advantage to explain how even the most disadvantaged gain from trade.*

- a. The magic of comparative advantage is that everyone has a comparative advantage at producing something.
- b. To find people's comparative advantages, do not compare their absolute advantages. Compare their opportunity costs.
- c. The upshot is quite extraordinary: Everyone stands to gain from trade. Even those who are disadvantaged at every task still have something valuable to offer.

Teacher Tip: Teachers should assign Self-Study reading 4.3.D at the end of class.

4.3.D – Self-Study: Read the following two articles which illustrate the idea of specialization and comparative advantage in the form of a story. Then answer the questions that follow. [30 min]

ARTICLE: [Treasure Island: The Power of Trade. Part I. The Seemingly Simple Story of Comparative Advantage](#) (econlib.org)

ARTICLE: [Treasure Island: The Power of Trade. Part II. How Trade Transforms Our Standard of Living](#) (econlib.org)

DISCUSSION QUESTIONS: Treasure Island

1. *“Self-sufficiency is the road to poverty. Trade creates wealth by letting me use your skills along with mine.” Explain, using the example on Treasure Island how specialization and trade make people better off, even when some people are absolutely better at producing all goods or services available?*

- a. The author explains “I told the story of the Fishers and the Palmers, two newly-wed families shipwrecked on a tropical island, desperately seeking food and water. The palmers can barely gather enough fish and fresh water to survive. The Fishers are better at both. But even though the Palmers are inferior in both tasks to the Fishers, they still have something to offer in trade – their time. By collecting water for the Fishers, the Fishers have more time to fish. And by fishing for the Palmers, the Fishers create more time for the Palmers to collect water.”
- b. Through specialization and trade both parties always benefit and increase their own wealth even if one party is absolutely better at producing everything. This is because when people specialize and trade they save themselves time and are able to consume more – both families in the story end up better off because they all get more fish.

2. *The author states that none of the scenarios at the end of the essay should be stopped from occurring. Why? How do these scenarios represent real life issues?*

- a. None of the scenarios at the end of the essay should be stopped from occurring. They are all simple examples of the consequences of trade and innovation. When new trading partners, who are more efficient at producing something, or more innovative, enter the market everyone benefits.
- b. For example, if the first scenario occurred the Fishers may become despondent, but will be relatively better off. They too could fetch water and trade it for more fish or could do something else entirely. Everyone is better off – the fisherman has fresh water and both families have more fish to eat.
- c. These examples represent trading and innovation in the market. If there are protectionist policies that do not allow trading between countries, or barriers to innovation everyone becomes worse off. In the short run people may lose jobs when new trading partners enter the market, but their time and resources can be re-allocated to more efficient uses. Everyone becomes better off because they save time and can consume more and a wider variety of goods and services.

3. *What does it mean for someone to have a ‘comparative advantage’ at producing something? Do all people have a comparative advantage?*

- a. The author explains “The lesson is that the best use of your time in a world of trade depends on the skills of others. Our differences create the potential for specialization and the creation of wealth.” And “The lesson of comparative advantage is that while anything we do is worth doing well, not everything we do well is worth doing.
- b. A CEO who is a great cook still orders take out, even take out that isn’t as good as what the CEO can make. The cost of cooking isn’t just the grocery bill – it’s the time taken away from managing the company.

Lesson Recap

- Everyone has a comparative advantage at producing something.
- To find people's comparative advantages, do not compare their absolute advantages. Compare their opportunity costs.
- Everyone stands to gain from trade. Especially those who may lack the absolute advantage at producing a good or service.
- Trade is a positive sum game, meaning that both parties win in a trade.
- There can be mutual gains from trade because people value items differently.

Additional Resources

ARTICLE: [Specialization and Exchange](#) by Gene Smily (FEE.org)

“The advantages of this market process are so obvious most of us simply take them for granted”. Dr. Smily, an Associate Professor of economics at Marquette University, explains the benefits from specialization and trade as well as the effects on the market when policies interfere with free trade.”

ARTICLE: [A Marvel of Coordination: How Order Emerges Without a Conscious Planner](#) by Russell Roberts (Library of Economics and Liberty)

“How is it that millions of people every day cooperate with millions of others to get the bagel to your corner coffee shop? There’s no government agency or central hub where all the commerce originates. The web of connections holding the system together are unseen”

ARTICLE: [A Brief History of the Concept of Comparative Advantage](#) by Morgan Rose (Library of Economics and Liberty)

“For over 200 years, economists have touted an alternative approach in which specialization leads to wealth and self-sufficiency leads to poverty. In Book 4, Chapter 3, Paragraph 31 of *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Adam Smith showed how both parties can benefit from trade, but it was David Ricardo who is credited with what is commonly called “comparative advantage”, the idea that both parties can benefit from trade even if one of them is better at producing everything than the other.”

LESSON 4 – COMPETITION AS COOPERATION

Description:

Markets are essentially extensive networks of cooperation. Learning to cooperate means you learn to trade well with others. In the market, people compete over ways to better serve people. Competition within a free market economy is actually a competition over who can best cooperate.

In this lesson, student will watch and discuss the video “Trade is Made of Win. Part Two: Cooperation” by Professor Art Carden. Next students will read and discuss an article, “Competition and Cooperation” by Steven Horwitz. Then students will participate in an activity which demonstrates the complementary nature of cooperation and competition. Finally, students will read another article that beautifully articulates the fact that competition is a form of cooperation, by Sheldon Richman.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 4.3 – Division of Labor and Specialization

4.4.A – Watch and discuss the following video using the questions below to guide your discussion [5 min]:

VIDEO: [“Trade Is Made of Win,” Part 2: Cooperation](#) (Learn Liberty, 2:43 min)

“Prof. Art Carden examines how trade creates wealth by allowing people working together to produce more than they could individually. Using a simple two-person example, he shows how cooperation during production increases total output and benefits everyone.”

DISCUSSION QUESTIONS: “Trade Is Made of Win,” Part 2: Cooperation

1. *What does Professor Carden mean by the statement “Trade is Made of Win?”*

- a. Professor Carden explains “Trade is a positive sum game, meaning that when people can trade they can produce more stuff than they would be able to if they didn’t trade.”
- b. As shown by the example in the video, without specialization and trade there is a total of 500.5 apps and 150,000 peapods produced. However with specialization and trade there are 750 apps and 150,000 peapods produced.
- c. Through specialization and trade we can create greater wealth than we could hope to achieve working independently. In this example, society also benefits from the increased number of apps now available on the market.

4.4.B – Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Competition and Cooperation](#) by Steven Horwitz (FEE.org)

“Competition and cooperation are often juxtaposed, yet in the market they are two sides of the same activity... modern goods and services are the product of immense cooperation among human beings. That network of institutions and exchanges facilitates cooperation via competition, with the result being the progressive enrichment of humanity.”

DISCUSSION QUESTIONS: Competition and Cooperation

1. *What do you think of when you see or hear the word, “cooperation?”*

- a. Most people think of cooperation as intentional and “aware”; that is, voluntarily and consciously helping each other out, usually in person (face to face).
- b. **Cooperation** is the act of voluntarily working or acting together for mutual benefit.

2. *How is any good or service—such as a computer or an airplane flight—an example of cooperation?*

- a. Every good or service has a long, complex history of cooperation. There are countless people involved in the design, production, and delivery processes; each of these people enter into agreements covering a wide variety of things, including costs, standards, expectations, and so on. It takes an immense amount of cooperation for all of the various elements comprising a product or service to come together to create and deliver said product or service.
- b. Steve Horwitz explains that “The shirt I’m wearing today required the cooperation of millions of people to transform it from the most basic raw inputs into the finished product that was delivered to my house by UPS.”
- c. The extraordinarily fine and precise division of labor that characterizes modern markets means that we are very limited in what we can do for ourselves individually and therefore must rely even more heavily on the cooperation of others to obtain even the most basic of goods. Cooperation is just the obverse of the division of labor.”

3. *Is unintentional and/or anonymous cooperation we experience through markets inferior to intentional and/or “known” cooperation?*

- a. No. Cooperation is no less productive or valued if it’s unintentional. According to Horwitz, “Markets generate unintentional cooperation by harnessing the power of competition as it unfolds in the context of private property, sound money, and the rule of law.”
- b. If the only cooperation that occurred was between people who knew each other, the number of goods and services available to us would be dramatically fewer, and as a result, everyone would be much poorer.
- c. “Even though this cooperation is anonymous and unintended, it creates the same sort of interdependence that intentional cooperation creates.”—Steve Horwitz
- d. “There is no need to push for more forms of intentional cooperation when we already know that markets, especially freed markets, are the foundation of the most extensive cooperation in history. And the most beneficial as well.”—Steve Horwitz

4. *What is the name of the metaphor used to describe the guiding force whereby individuals, in the course of pursuing their own self-interest, help others satisfy their self-interest (through mutually beneficial exchange), and in doing so, contribute to an efficient system of production and allocation of valued goods and services?*

- a. “The Invisible Hand” or Spontaneous Order (See Module 6). This term, coined by Adam Smith in *The Wealth of Nations*, is used to explain how value is created and allocated by individuals pursuing their own self-interest, and in the process, helping others achieve theirs.
- b. “Order” and maximum value creation is best achieved by allowing individuals to produce and freely exchange based on their subjective preferences, as opposed to having a central authority determine the best uses for resources and recipients of goods and services.

5. *What is the connection between free market cooperation and civil society?*

- a. In a free market, people are free to choose the products/services they wish to use/consume. So the more we are connected to people through trade, the more civil and peaceful our society becomes (social cooperation).
- b. Trade is a form of cooperation. Competition on the market is a competition to serve other people well.
- c. “This extension of cooperation and peace through exchange is what Mises referred to as the *Law of Association*.”
- d. “It is competition among producers, within with the institutional structure of property rights and sound money, which enables them to figure out what contracts to create and what prices to charge in order to best serve customers and earn a profit.”
- e. “That network of institutions and exchanges facilitates cooperation via competition, with the result being the progressive enrichment of humanity.”

6. *What happens when there are products that people want but are not allowed to purchase? (Think about issues both foreign and domestic).*

- a. The demand for the product remains, but the production and exchange of these products goes “underground” and becomes dominated by people willing to circumvent the law.
 - a. Prohibition: People made and traded alcohol illegally. The alcohol industry became dominated by violent gangs.
 - b. Illegal drugs: The criminalization of drugs has had the same effect as prohibition of alcohol. The demand remains, but production and sale is dominated by violent organizations such as cartels.
- b. In the case of trade barriers such as tariffs, consumers are forced to either pay an artificially higher price for a good, and are often made to choose between buying an inferior product, or going without it at all. Also, the producers of the foreign good are hurt because fewer people will buy their goods. Finally, in some cases, military invasion and seizure of resources or goods occurs. There is a saying, “when goods don’t cross borders, armies will.”

4.4.C – Activity-Complete the following activity and share your ideas with the group [25 min]:

ACTIVITY: The Puzzle Game

In this activity, students divide into teams and compete with each other to solve a puzzle.

Directions:

1. Divide the class into groups of no more than 5.
2. Take out each puzzle and mix together the pieces from each puzzle.
3. Distribute the pieces among each group, making sure they each get X# pieces. Assign each group a specific puzzle to complete. At this time, hand out the “coins” to students.
4. Instruct the students that they have X minutes to successfully complete their puzzle. In order to do so, they will need to trade pieces with other groups. Each group should appoint an official trader to conduct trades with other groups.
5. Trades will occur...students will buy pieces for other groups Encourage students to think creatively about how they conduct trades (ex: they can offer 2-for-1 discounts, adjust prices based on the pieces that are in high demand, they can exchange coins, buy pieces for another groups’ puzzle, etc)
6. The first group to successfully complete their puzzle wins.

DISCUSSION QUESTIONS: The Puzzle Game

1. How did competition factor into this activity?

- a. Teams offered different deals based on the pieces they owned and the pieces they needed.
- b. Better deals meant it was easier/faster to complete the activity.

2. How did cooperation factor into this activity?

- a. Each party to a trade had to agree to the terms of the deal.
- b. If no agreement was reached, no trade occurred.

3. What do you think would have happened if everyone had to offer the same exact deal?

- a. It would have taken a lot longer to obtain the pieces each group needed and to finish the puzzle
- b. It would have been frustrating and progress would have been slow.

Teacher Tip: Teachers should assign Self-Study reading 4.4.D at the end of class.

4.4.D – Self-Study: Read the following article. Use the questions below to guide your reading [15 min]:

ARTICLE: [Competition Is Cooperation](#) by Sheldon Richman (FEE.org)

“For human beings competition is not the negation of cooperation but a form of it... Competition is what arises when people are free to choose with whom to cooperate... Thus freedom plus cooperation equals competition. Those who would banish competition would also have to banish free cooperation.” Compulsory cooperation is what went on in the gulag and concentration camp. In fact, there’s nothing cooperative about it at all. It’s just compulsion.”

DISCUSSION QUESTIONS: Competition is Cooperation

1. *What do you think Sheldon Richman mean when he writes, “...competition is not the negation of cooperation but a form of it”?*

- a. Competition is a natural result of “when people are free to choose with whom to cooperate.” People want to cooperate with each other, but people also have to make choices; as a result, people compete in order to cooperate with others.
- b. “Mises takes this argument a step further. It has been suggested that fellow feeling among people led to economic cooperation and rising living standards. Mises says it worked the other way around. The realization that trade makes us better off encouraged economic cooperation. This in turn permitted the emergence of ‘feelings of sympathy and friendship.’ Cause and effect could not have been reversed. If we were competitors in consumption, ‘Each man would have been forced to view all other men as his enemies; his craving for the satisfaction of his own appetites would have brought him into an implacable conflict with his neighbors. No sympathy could possibly develop under such a state of affairs.’ ”

2. *What happens when market cooperation is replaced by politically-forced “cooperation”?*

- a. Prices become distorted, leading to a variety of negative consequences, including inefficient production and exchange.
 - “Without private ownership and trade in the means of production—that is, competition—there can be no true money prices for resources. And without prices there can be no way to calculate the best strategies for satisfying consumers at the lowest cost.”
- b. Social cohesion, trust, and respect for others weakens as a result of laws restricting how people can cooperate and pursue their interests. This can cause feelings of frustration and disrespect and resentment from government giving favorable treatment to some and not others. We also tend to see reductions in the availability of goods and services causing people to become desperate to acquire them.
 - “...when competition (which arises from market cooperation) is forcibly suppressed, cooperation breaks down and something like the real law of the jungle takes its place.” –Sheldon Richman
 - “Compulsory cooperation is what went on in the gulag and concentration camp. In fact, there’s nothing cooperative about it at all. It’s just compulsion.”—Sheldon Richman

3. *How is competition among people different from competition we typically think of between wild animals?*

- a. “The competition that goes on in the marketplace is not, for the most part, competition in consumption, but rather competition in production. Or, to be more precise, we compete to consume by competing to produce.”—Sheldon Richman
- b. When governments force cooperation, competition becomes more about consumption and less about production.

Lesson Recap

- Trade creates wealth by allowing people working together to produce more than they could individually.
- Competition in the market is a form of cooperation.
- Through specialization and cooperation through trade, we can create greater wealth than we could hope to achieve working independently.
- Competition and cooperation are two sides of the same activity.
- “There is no need to push for more forms of intentional cooperation when we already know that markets, especially freed markets, are the foundation of the most extensive cooperation in history. And the most beneficial as well.”

Additional Resources

ARTICLE: [Competition and the Limits of Sports Analogies](#) by Steven Horwitz (FEE.org)

“It is in this sense that both economic and athletic competition are consistent with a point Hayek made decades ago when he noted that the Greek word for competition also means “to search for together.” All competition is a form of learning, but in sports that learning does not provide benefits to people outside the activity in the ways that markets do. Market competition creates positive spillover effects for *everyone*, and so economic competition is not the zero-sum game the critics imagine. It is a positive-sum game in which the losses of some are far outweighed by the benefits to all. And therein lies the limits of the analogies from athletic competition.”

ARTICLE: [Cooperation: How a Free Market Benefits Everyone](#) by Jeffrey Tucker (mises.org)

“The significance is impossible to exaggerate: It means that it is not necessary that all people of the world have the same talents in order to benefit from cooperation. In fact, it is the very diversity of the human population that makes it advantageous for them to work together and trade to their mutual benefit. What this means is that isolation and self-sufficiency lead to poverty. Cooperation and the division of labor are the path to wealth.” [[available in audio](#)]

ARTICLE: [Competing on Customer Service: An Interview with British Airway’s Sir Colin Marshall](#) (Harvard Business Review)

“In this interview, Sir Colin Marshall explains how British Airways is using both cooperation and competition in the market to deliver value to its customers through improved customer service.”

VIDEO: [Social Cooperation: Why Thieves Hate Free Markets](#) (Learn Liberty 3:02 min)

“Many believe that market economies create a dog eat dog environment full of human conflict and struggle. To Prof. Aeon Skoble, the competition in markets does not create conflict, but rather, encourages people to cooperate with one another for mutual benefit.”

ARTICLE: [Cooperative Companies Offer an Alternative to Franchising](#) (Entrepreneur.com)

“People are slowly beginning to realize the power of cooperatives and their potential as a viable business model. In addition to groceries and agriculture, there are coops for other types of retail, as well as banking and housing. “By our best estimate there are 29,000 cooperatives generating 2 million jobs in the U.S” Bailey says. “They hold 3 trillion in assets and add \$650 billion [annually] to the economy. The recession has really driven interest in co-ops. They are affordable and people are looking for deals.”

ARTICLE: [Freedom, Selfishness and Cooperation](#) by David Boaz (Cato Institute)

“The market arises from two facts: that human beings can accomplish more in cooperation with others than alone and that we can recognize this. If we were a species for whom cooperation was not more productive than isolated work, or if we were unable to discern the benefits of cooperation, then we would remain isolated and atomistic....Cooperation is as much a part of the market system as competition. Both are essential elements of the simple system of natural liberty, and most of us spend far more of our time cooperating with partners, coworkers, suppliers and customers than we do competing.”

ARTICLE: [The Ultimate Chain Letter](#) by Russell Roberts (Hoover Institution)

“It has become natural to us to rely on those we do not see and cannot examine for their honesty, reliability or excellence. Yet, most of the time, this extended order of human cooperation fulfills our expectations that the products and services we want will be waiting for us when we want them.

We understand the role of competition in sustaining this system. Having alternatives helps create accountability and raises the costs of failing to meet our expectations. But we often fail to understand or notice the resulting cooperation among strangers whose coordinated actions within and across companies serve us.”

ARTICLE: [Trucking, Bartering, Community, Esteem](#) – by David Schmidtz (Stanford Encyclopedia of Philosophy)

“Insofar as society is a cooperative venture for mutual advantage, learning to survive—not just physically but as full members of a community—will involve learning to cooperate. Learning to cooperate involves learning to become a trading partner. In other words, cooperation begins with having something to offer: a way of making people better off.”

LESSON 5 – ECONOMIC FREEDOM AND PROSPERITY

Description:

According to the [Economic Freedom of the World Index](#): “The link between freedom and prosperity is undeniable. The most economically free countries offer the highest quality of life and personal freedoms while the lowest ranked countries, are usually burdened by oppressive regimes that limit the freedom and opportunity of their citizens.”

In this lesson, students will watch and discuss a video by Professor Antony Davies, “What’s so Great about Economic Freedom?” Next, students will read an article by James Gwartney, Robert A. Lawson, and Joshua C. Hall, “The Decline in Economic Freedom.” Finally, students will watch a brief video followed by an activity about the incredible power of economic freedom and the prosperity it brings to the world.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 4 – How Does Trade Create Wealth?



4.5.A – Watch the following video and use the discussion questions to guide your discussion [10 min].

VIDEO: [What's So Great about Economic Freedom?](#) (Learn Liberty, 4:25 min)

“Economic freedom is about the freedom to buy and sell things, says Professor Antony Davies, but it’s also about the freedom to interact with people, to converse with others, to travel, and to say what we want to say...”

DISCUSSION QUESTIONS: What’s So Great about Economic Freedom?

1. What are a few of the benefits of economic freedom as described in the video? Do you think economic freedom is important?

- a. With more economic freedom comes higher economic growth, lower unemployment rates, and more equitable income distribution.
- b. Economic freedom also promotes greater gender equality, lower child labor rates, and reduced exploitation of the environment.
- c. The more economic freedom we have, the more able we are to make the world a better place.

2. What are some of the comparisons that can be made between states and countries that are freer compared to those that are less free?

- a. States with greater economic freedom have higher economic growth rates, lower unemployment rates, less debt per GDP than states that are less free.
- b. Countries and states that are more economically free also tend to have more equitable income distributions.

3. America’s economic freedom ranking dropped from 2nd in the world in 2000 to 18th in 2012. What do you think America could do to become more economically free again?

- a. In the [Economic Freedom of the World](#) index, from the period between 1980 to 2000 the United States ranked as one of the world’s freest economies (along with Hong Kong and Singapore) as measured by a few key areas, including: Size of Government Expenditures and Taxes; Legal Structure and Security of Property Rights; Access to Sound Money; Freedom to Trade Internationally; Regulation of Credit, Labor, and Business. The US has seen a notable decline in each of these areas.
- b. If we think economic freedom is important, we should work to increase economic freedom in these key areas.

4.5.B – Read the following article using the questions below to guide your discussion [10 min].

ARTICLE: [The Decline in Economic Freedom](#) by James Gwartney, Robert A. Lawson, and Joshua C. Hall (FEE.org)

“We now know more about the sources of growth and prosperity than ever before. Economic growth is primarily the result of gains from trade, capital investment, and the discovery of improved products, lower-cost production methods, and better ways of doing things. Numerous studies have shown that countries with more economic freedom grow more rapidly and achieve higher levels of per capita income than those that are less free. Similarly, there is a positive relationship between changes in economic freedom and the growth of per capita income. Moreover, as per capita income has grown, the world’s poverty rate has declined, and most of this progress has occurred in countries that have made substantial moves toward higher levels of economic freedom.”

DISCUSSION QUESTIONS: The Decline In Economic Freedom

1. *What does the Economic Freedom of the World Index measure, and how does a country earn a high score?*

- a. The Economic Freedom of the World index “measures the consistency of a nation’s institutions and policies with economic freedom. Put simply, institutions and policies are consistent with economic freedom when they permit individuals to choose for themselves, enter into voluntary agreements with others, and protect individuals and their property from aggressors.”—James Gwartney, et al.
- b. In order to earn a high score, countries “...must provide secure protection of privately owned property, evenhanded enforcement of contracts, and a stable monetary environment. It also must keep taxes low, refrain from creating barriers to both domestic and international trade, and rely more fully on markets than the political process to allocate goods and resources.”—James Gwartney, et al.

2. *How are incentives to serve people different for entrepreneurs in the market and public servants in the government? How does each know whether or not they are serving people well?*

- a. In the market, profit and loss tell businesses the most productive allocations of resources, as well as how to best create value for consumers.
- b. The incentives in the market push entrepreneurs to offer the best service at the lowest cost. There is nothing like the system of profit and loss in government; instead, the dominant incentives focus on how political actors can gain more influence and power directing resources.
- c. The result is that in politics, resources are channeled not toward their most productive uses, but toward those who are powerful and well-connected, and value is created primarily for very narrow, specific groups of people.

3. *What is the difference between a “market entrepreneur” and a “crony capitalist?”*

- a. A “market entrepreneur” finds success by “providing customers with better products, more reliable service, and lower prices.”
- b. “Crony capitalists,” however, are successful because they are politically connected and are able to get special treatment from government.
- c. Whereas market entrepreneurs actually create value for consumers, crony capitalists take taxpayer money for their own benefit and work to limit consumers’ choices.

4.5.C – Watch the following video and complete the following activity 4.5.D. Share your ideas with the group [25 min].

VIDEO & ACTIVITY: [Economic Freedom in 60 Seconds](#) (EconFree, 1 min) and [2015 Index of Economic Freedom](#) Activity

The Heritage Foundation, together with the Wall Street Journal, has for over twenty years published an annual report titled “The Index of Economic Freedom.” This report is very similar to the aforementioned “Economic Freedom of the World” index, largely in that it measures economic freedom using a number of different measurements relating to the country’s economic and legal systems; general trends are the same, though specific rankings may vary. Using the report’s website featuring interactive displays of various measures of economic freedom, students will be able to compare and contrast countries with different levels of economic freedom.

Teacher Tip: Familiarize yourself with the website before this lesson.

Directions:

1. Introduce the activity using the following brief video: [Economic Freedom in 60 Seconds](#) (EconFree, 1 min)

“How do you explain the incredible power of economic freedom in 60 seconds? This video does just that, showing how vital economic freedom is to our quality of life”

2. [Open the 2015 Index of Economic Freedom—Heritage Foundation webpage](#) and tell the students the following background information:

- a. The Index collects data from 186 countries and has been published for over twenty years.
- b. It measures ten freedoms, grouped into four general groups: rule of law, limited government, regulatory efficiency, and open markets. The different freedoms are defined/measured as follows:
 - **Business Freedom:** Measures the regulatory burden on the ability to start, operate, and close a business.
 - **Trade Freedom:** Measures the absence of tariffs and non-tariff barriers affecting imports and exports.
 - **Fiscal Freedom:** Measures the tax burden.
 - **Government Spending:** The percentage of GDP comprised of government spending.
 - **Monetary Freedom:** Measures price stability and the nature of any price controls.
 - **Investment Freedom:** Measures constraints on the ability of individuals and companies to invest.
 - **Financial Freedom:** Measures independence of banks from government control.
 - **Property Rights:** The level of legal protection of private property.
 - **Freedom From Corruption:** The level of corruption in government.
 - **Labor Freedom:** Measures various aspects of labor policies, such as minimum wage laws, regulatory burdens on hiring, hours, etc.

3. Ask the students which region they would like to look at. Choose one, then use the following to guide your exploration of different countries' economic freedom.

- a. **Country Rankings:** This groups the ranked countries by “free,” “mostly free,” “moderately free,” “mostly unfree,” and “repressed.”
- b. **Graph the Data:** This tool allows you to compare up to 3 countries across all ten variables from 1995 to 2015.
- c. **Interactive Heat Map:** This tool gives a visual representation of economic freedom across all variables in the form of a multicolored map.

4. As you look at different countries' levels of economic freedom, ask students what they think could be done to help improve the level of economic freedom, as measured by the different variables. The following is a guide to potential answers:

- a. **Business Freedom:** Remove regulations making it difficult to start, operate, or close a business.
- b. **Trade Freedom:** Eliminate tariffs and other barriers to international trade.
- c. **Fiscal Freedom:** Reduce the tax burden.
- d. **Government Spending:** Find ways for markets or civil society to provide services instead of government, thus lowering government spending.
- e. **Monetary Freedom:** Eliminate price controls (where the law requires a good or service to be sold below or above a certain rate).
- f. **Investment Freedom:** Make it easier to save and invest.
- g. **Financial Freedom:** Reduce government control of the banking industry.
- h. **Property Rights:** Reduce government violations of property rights and fairly enforce contracts.
- i. **Freedom From Corruption:** Greater transparency and accountability from government. Enforcement of the rule of law.
- j. **Labor Freedom:** Reduce the limitations on individual's freedom to contract.

Lesson Recap

- Economic freedom means the freedom to interact and trade with people. Economic freedom means the freedom to make choices with your property and person provided that you don't violate anyone else's freedom and you live with the consequences of those choices.
- The benefits of economic freedom include: greater wealth, cleaner environment, less infant mortality, greater happiness, longer life expectancy, less child labor, civil rights, less corruption, great social harmony, and less unemployment.
- Free markets result in a “pattern of mutual adjustment and coordination that creates far more wealth and opportunity than could ever be achieved by central direction.” – Dwight Lee

Additional Resources

VIDEO: [Markets: Exploitation or Empowerment?](#) (Learn Liberty, 8:26 min)

“Prof. Antony Davies empirically examines the question of whether or not markets are exploitative. In his analysis, he finds that trade is positively correlated with wealth creation, jobs, reductions in child labor, and increasing wages. Markets, therefore, empower individuals rather than exploit them.”

PODCAST: [Deaton on Health, Wealth, and Poverty](#) (EconTalk, 1:23:00 min)

“Angus Deaton of Princeton University and author of the Great Escape talks with EconTalk host Russ Roberts about the book –the vast improvements in health and standard of living in modern times. Deaton surveys the improvements in life expectancy and income both in the developed and undeveloped world. Inequality of both health and wealth are discussed as well. The conversation closes with a discussion of foreign aid and what rich nations can do for the poor.”

VIDEO: [Economic Freedom & Income Equality](#) (EconFree, 3:52 min)

“Watch as Professor Robert Lawson discusses the connection between economic freedom and income inequality and why what we should really be concerned about is income mobility.”

MODULE 5 – WHAT DO PROFIT AND LOSS TELL US?

“The entrepreneur profits to the extent he has succeeded in serving the consumers better than other people have done.”

– LUDWIG VON MISES, [HUMAN ACTION](#)

Overview:

Entrepreneurs attempt to direct resources to where they are most valued in society. This means producing goods and services that people want and need at a cost that people are willing to pay. Profit and loss both provide incentives for entrepreneurs to create value and communicate knowledge about the success (or failure) of their attempt to create value. In a market economy the function of profit and loss is to direct the allocation of resources to the most preferred uses of the people in society. This lesson explains the role of prices in providing both knowledge and incentives to entrepreneurs.

Concepts and Terms:

- Loss
- Markets
- Prices
- Profit
- Competition
- Incentive

Objectives:

Students will be able to...

- Explain the function of prices
- Identify the necessary requirements for a functioning price system
- Describe the role of profit and loss in the allocation of resources in society
- Understand how profits signal the successful serving of the needs of others

Related Standards:

STANDARD 7: MARKET PRICES – A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

STANDARD 8: ROLE OF PRICES – Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

STANDARD 9: COMPETITION AND MARKET STRUCTURE – Competition among sellers usually lowers costs and prices, and encourages producers to produce 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.

Description:

Irish playwright Oscar Wilde once called a cynic “A man who knows the price of everything and the value of nothing.” While no one could possibly know either, or certainly both, prices do convey useful information. Prices help coordinate the actions of people in the market by communicating the local knowledge of individual producers and consumers and providing the incentives for people to act on that knowledge. In a complex economy, a freely functioning price system enables voluntary exchange and social cooperation.

In this lesson, students will watch and discuss a short video about the “magic of prices” with Duke Professor, Michael Munger. Next, students will watch a video by Troy University professor, Dan Smith, who further explains how prices communicate valuable information throughout the economy. Finally, students will participate in an activity simulating a planned economy and a free market during which they will see the benefits of emergent prices.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Activity materials include:

- Record chart for blackboard or overhead transparency
- 50-75 pencils
- 100 assorted candies or candy bars
- "Production chips" (colored paper clips, poker chips, etc.)
- Ruble and dollar debit cards, two of each per student (8 per page)
- Two black markers
- Prizes for successful factory managers (large candy bar, fast food certificate, badges etc.)

Prerequisites:

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?

Module 4 – How Does Trade Create Wealth?

5.1.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [What Do Prices “Know” That You Don’t?](#) (Learn Liberty, 4:33 min)

“According to Professor Michael Munger, prices (as in, the price of a carton of milk or a new car) are akin to magic. Prices “magically” convert countless pieces of dispersed, complex information into a single signal that conveys to sellers what they should do to best benefit society. By ignoring the price system, you’re really ignoring the needs of those whom you want to serve. This is the “magic” of the price system – it merges the needs of society with each seller’s desire for profit.”

DISCUSSION QUESTIONS: What Do Prices “Know” That You Don’t?

1. How does an entrepreneur know what and when to produce? What kind of knowledge do prices communicate?

- a. Prices tell entrepreneurs what consumers value. Market prices are determined through the decisions made by buyers and sellers. Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust accordingly. This affects incentives for both buyers and sellers.
- b. Entrepreneurs drive production in the economy, but they are steered by the wants and needs of consumers. Ultimately, it is the consumer who determines what should be produced. Without prices, entrepreneurs don’t have a way of knowing what should be produced.
- c. High prices for a good or service provide incentives for buyers to purchase less of that good or service and for producers to make or sell more of it.
- d. Lower prices for a good or service provide incentives for buyers to purchase more of that good or service and for producers to make or sell less of it.

2. What does it mean that farmer Al needs information about what he should produce that is “too dispersed” and “too specific” to learn?

- a. Professor Michael Munger explains “Information is too dispersed, too complicated to solve the IDK problem through research – there’s just too much to know. Fortunately farmers don’t need a crystal ball because prices do exactly what we were hoping that the genie would do.”
- b. The video shows that no one person can fully explain why a price is high or low – there is too much information out there to research all of it and the marketplace is constantly changing. It is also too hard to determine which information is relevant. Prices solve this problem by indicating which crop is in greater need. By choosing to plant soybeans, the crop with the higher profit, the farmer can solve the shortage, meet the demand and satisfy the requirements of innovation.
- c. As shown by farmer Al, it was a waste of time researching the market because he should have just focused on what he was good at – running a farm. Had he used prices as a guide for what to plant and focused his time and resources into growing soybeans, he would have helped society more, made a decent profit and not have gone bankrupt.

3. *Why was farmer Moe able to rely solely on prices to determine what he should produce?*

- a. Farmer Moe was able to rely solely on prices to determine what he should produce because prices take into account all the relevant information in a marketplace about how people value a product.
- b. Farmer Moe chose to plant the crop that would give him the highest profits – the crop that was most valuable to people. The higher prices of soy indicate that society needs more soybeans. This saves farmer Moe from spending impossible amounts of time consuming research on each crop.

4. *Is it possible for entrepreneurs—or anyone else—to calculate profit and efficiently allocate resources without prices? Why or why not? What actions take place as the result of the calculations made by an entrepreneur?*

- a. It is not possible for entrepreneurs to determine profit or efficiently allocate resources without prices. Prices are an economic indicator that tell entrepreneurs how to put resources to their most efficient uses. Without prices entrepreneurs cannot determine how to put resources towards their most efficient use to meet the needs of people in society.
- b. As explained in the video if an entrepreneur puts their resources towards their highest valued uses they help society to solve a shortage, meet a demand, and satisfy the requirements of innovation.

5. *If entrepreneurs determine the course of production, how are consumers sovereign?*

- a. As shown through the example in the video of Farmer Moe, entrepreneurs react to the incentive of prices and profit. When something has a greater demand, like soybeans, prices rise and more entrepreneurs will produce it. Therefore, consumers have a good amount of influence on what will be produced.
- b. If entrepreneurs produce something that is not valued by consumers they will have to produce something different in order to profit.

5.1.B – Watch and discuss the following video using the questions below to guide your discussion [5 min]:

VIDEO: [The Price System, Part 1: Information](#) by Dan Smith (Learn Liberty, 2:25 min)

“Why are prices important? Prof. Daniel J. Smith of Troy University describes the role that prices play in generating, gathering, and transmitting information throughout the economy. Information about the supply and demand of different goods are dispersed among different buyers and sellers in an economy. Nobody has to know all this dispersed information; individuals only need to know the relative prices. Based on the simple information contained in a price, people adjust their behavior to account for conditions in supply and demand, even if they are unaware of that information.”

DISCUSSION QUESTIONS: The Price System, Part 1: Information

1. How do markets and prices help to coordinate the activities of the people in a complex economy?

- a. According to Dr. Smith, the price system offers an information generating, gathering, and transmitting process that calls up widely dispersed information that no person or agency can know on their own.
- b. These prices transmit local knowledge from buyers and seller and help to incentives people act on that knowledge. The result is coordination in a complex economy, even though no one person or group of people plans the coordination.

2. How do prices influence people’s behavior regarding the buying and selling of tin, even if they do not know the specific market conditions for tin?

- a. Prices help coordinate the actions of both producers and consumers. People automatically adjust their behavior when there is a change in price.
- b. If resources became relatively scarcer, such as the example in the video of the collapsing tin mine, producers don’t need to know why prices have gone up, only that they can now charge more. This leads producers to increase their output to take advantage of the higher prices. Consumers will use fewer products made with tin because of the higher prices.
- c. Prices communicate the local knowledge of individual producers and consumers. This knowledge, transmitted through prices, directs resources to where they are needed most to satisfy the most urgent wants of consumers.

5.1.C – Complete the following activity and share your ideas with the group [30 min]:

ACTIVITY: Command Economy vs. Free Economy

“Prices contain information about how and what people value (as embodied in supply and demand). It is through the price mechanism that goods and services are allocated to those who value them the most. Prices work best when they develop over many interactions between buyers and sellers; prices that are set by a centralized, top-down process are unable to capture the information that allows for efficient, wealth-maximizing coordination. The Soviet economy was one in which prices were set in such a top-down way, and the results were disastrous. In this activity, students will participate in a simulation to see firsthand the difference between centrally planned prices and emergent prices as producers attempt to supply the goods and services people need.”

[Download Activity Instructions from the Fraser Institute](#)

Teacher Tip: Emphasize to students the responsiveness of markets, and the role of prices in providing the information that makes that responsiveness possible.

5.1.D – Self-Study: Read the chapter 15 “How the Price System Works” from Economics in One Lesson [15 min]:

ARTICLE: [Economics in One Lesson - How the Price System Works](#) by Henry Hazlitt (FEE.org)

“The whole argument of this book may be summed up in the statement that in studying the effects of any given economic proposal we must trace not merely the immediate results but the results in the long run, not merely the primary consequences but the secondary consequences, and not merely the effects on some special group but the effects on everyone.”

Lesson Recap

- Prices convert dispersed, complex information into a single signal that conveys to sellers what they should do to best benefit society.
- Prices communicate the local knowledge of individuals in the market and provide incentives for people to act on that information. Prices are incentives wrapped in knowledge.
- Prices help coordinate the actions of both producers and consumers.

Additional Resources

VIDEO: [Problems and Prices | Paul Cwik](#) (FEE.org, 2:40 min)

“Paul Cwik, associate professor of economics at Mount Olive College, explains the fundamental economic problem that faces every society: How do we rationally allocate resources?”

ARTICLE: [Market Prices vs Communist Demand](#) by Henry Hazlitt (FEE.org)

“So when we examine closely how the two systems, communism and free market economy, work in detail—the one controlled by bureaucrats imposing by fiat a single overall production plan from the top, the other operating through the free and flexible production and consumption choices of millions of individuals, with their individual decisions constantly modified and coordinated by a system of free market prices—we can see why the capitalistic system is so enormously productive, and why the overall production plans of the communist bureaucrats must go wrong chronically and necessarily, and not merely because of bad luck or bad weather.”

ARTICLE: [Profits Versus Love by Russell Roberts](#) (FEE.org)

“Here’s the key insight of economics: some of those folks who go down with a song in their hearts because they know they’re helping others would have stayed home if the price of lumber hadn’t soared. It’s hard to get in your car and disrupt your life and give up your lumber. The monetary incentive makes it easier. The higher price doesn’t just induce the hard-hearted to go. It induces the altruist as well.”

VIDEO: [A Price is a Signal Wrapped Up in an Incentive](#) (Marginal Revolution University, 4:46 min)

“We take a look at how oil prices signal the scarcity of oil and the value of its alternative uses. Following up on our previous video, “I, Rose,” we show how the price system allows for people with dispersed knowledge and information about rose production to coordinate global economic activity. This global production of roses reveals how the price system is emergent, and not the product of human design.”

LESSON 2 – HOW MARKET PRICES EMERGE

Description:

Prices emerge from the multitude of exchange interactions between buyers and sellers in the market. Prices reflect the unique, situational, and ever changing knowledge of individual circumstances and preferences. Prices reflect how people value available scarce resources relative to their alternatives.

How do prices adjust in a market economy? What role is played by the profit-seeking entrepreneur? In this lesson, students will participate in an activity called “A Market for Crude Oil,” in which they will seek to maximize their profits through buying and selling barrels of oil. Students will see how, through the many interactions of different buyers and sellers, prices “emerge” and stabilize.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, Activity Materials

Activity Materials Include:

- Buy cards, enough for half of the class
- Sell cards, enough for half of the class
- Score sheets for “A Market in Crude Oil,” one for each student
- Supply and Demand Schedules, one for each student
- Crude Oil Supply and Demand (graph sheet), one per student
- A Market Survey, one per student
- One colored armband (construction paper or yarn) for each seller.
- The following visuals are also needed: (1) sample Buy/Sell Cards; (2) Class Tally Sheet; and (3) Graphing Supply, Demand, and Marking Clearing Price.

Prerequisites:

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decision?

Module 4 – How Does Trade Create Wealth?

Lesson 5.1 – Role of Prices

5.2.A: Complete the following activity and share your ideas with the group [45 min]

ACTIVITY: [A Market for Crude Oil](#)

Teacher Tip: This activity requires a class of at least 20 students to be effective. The instructions and handouts for the game can be found here: http://www.learner.org/workshops/economics/support/econclass_wk2.pdf

In a free market economy, prices emerge gradually from the interactions of buyers and sellers. When people engage in buying or selling, they are engaging in an act of information-sharing and -developing. Market prices are discovered through the interactions of buyers and sellers working to meet their individual needs. It is important to keep in mind, however, that prices are always changing due to a number of factors, including innovation and changing circumstances. In this activity, students will participate in a simulation of a market for crude oil and will see how prices emerge through continuous buying and selling.

Directions:

1. Explain to students that they will be participating in an activity in which half of them will be buyers, and the other half sellers, of barrels of crude oil. Display Visual 1 (Sample Buy and Sell Cards), explaining that each buyer will receive a buyer card, on which a price is listed; likewise, sellers will receive a seller card, which also has price listed on it. The prices listed on the cards vary.
2. Explain that buyers must try to buy a barrel at the lowest possible price. They should not buy for more than the price on their card, although this is sometimes necessary to make a transaction and get another Buy card. Stress that buyers should not reveal the price of their cards at any time.
3. Repeat step 2 with a Sell Card. Tell sellers that they will receive one sell card at a time. Explain that students must try to sell their barrels of crude oil at the highest possible price. They should try not to sell for less than the price on their cards, although sometimes this is necessary in order to make a transaction and get another Sell card. Stress that sellers should not reveal the price on their cards at any time.

Teacher Tip: You may wish to assign two students to handle the distribution and collection of the buy and sell cards during the game, and another student to record each transaction on the Class Tally Sheet (Visual 2). The Class Tally Sheet should be large enough for all students to easily see it. Buy and Sell cards should be kept in separate piles and shuffled between each of the three rounds.

4. Explain the following rules:

a. Any buyer can talk with any seller.

b. The goal for both buyers and sellers is to make as much money as possible; buyers make money by buying barrels at amounts *less than* what appears on their card, while sellers make money by selling for amounts *greater than* what appears on their card.

c. All students are free to make as many transactions in a round as time permits.

d. All transaction amounts must be made in whole dollar increments.

e. When a transaction is made, both the seller and the buyer report the agreed upon price to the recorder who will enter it on Visual 2 (Class Tally Sheet). Display Visual 2. Remind students to watch the tally sheet so that they will know what prices are being paid for a barrel of oil.

f. After a transaction, students should turn in their cards and receive new ones, re-enter the marketplace, and resume making transactions. It is important that students receive a new card after every transaction.

5. Hand out individual score cards. Review procedures for completing the score sheet.

6. Clear a large area in the classroom and designate it as the marketplace.

7. Divide the class into two equal-sized groups. One group will be sellers, the other buyers. Distribute a colored armband to each seller. Explain that the buyers will be buyers throughout the game and sellers will be sellers throughout the game.

8. Explain that you will conduct three rounds of trading lasting five minutes each. Announce when one minute remains in each round.

9. Use Visual 2 to record transactions.

10. Encourage students to make as many deals as they can in the time permitted. Remind students that it is permissible to take a loss in order to get a new transaction card.

11. During the time between trading rounds, direct students' attention to the record of all transactions on the Class Tally Sheet, Visual 2. Point out that it contains useful information for them. Do not elaborate.

12. At the end of the three rounds, allow students time to calculate their total net gain or net loss. Remind students that in the real market exchanges would be made for millions of barrels, so their gains or losses would be in millions of dollars too.

13. Determine the buyer and seller who had the largest net gains.

14. Conduct post game discussion. Possible answers are shown below.

- a. At what price was crude oil most frequently sold in each round? (Have students examine data on their score sheets and on the Class Tally Sheet.)
- b. In which round did the greatest spread in prices occur? (Examine data.)
- c. Why did the prices become more clustered in later rounds? (Competition among buyers and sellers based on greater information is the most important cause. Markets tend to move toward an equilibrium price as buyers and sellers obtain information about the quantity of products available at different prices.)

15. Distribute the Supply and Demand Schedules and Crude Oil Supply and Demand Graphs. Inform students that the information on the buyer and seller cards can be converted to supply and demand schedules and used to construct a graph that illustrates the behavior of buyers and sellers. The focal point of the graph—the point at which the line for market supply and the line for market demand intersect—is called the market clearing price or the equilibrium price of the product traded (in this case, crude oil).

16. Tell students to construct the graph by placing dots at the points that correspond to all combinations of prices and quantities shown in the supply schedule on Activity 4. Then do the same, but use small crosses instead of dots, for the demand schedule. Connect the dots to produce the supply schedule; connect the crosses to produce the demand schedule. Tell students to label each curve. Assist students who have difficulty. When they have finished, project Visual 3 and have students compare their graphs to it.

17. Tell the class the graph indicates that, given enough time, this competitive market would generate a market price of \$34 per barrel of crude oil. At that price, 16 barrels of crude oil would be sold. Ask: How does this compare with the market clearing price in the class simulation? (Answers may vary. Typically, a price of about \$34 will not prevail until students play several rounds of the game. But in later rounds, their transactions should converge toward the market price.)

18. After students complete the graphing exercise, summarize the important points by asking:

- a. What does the demand schedule show? (The quantities of crude oil buyers are willing and able to purchase at all possible prices.) Explain that this entire schedule is what economists call demand.
- b. What does the supply schedule show? (The quantities of crude oil sellers are willing to produce and sell at all possible prices.) Explain that this entire schedule is what economists call supply.
- c. When the only thing that changes is the price of a product, what relationship exists between the price of a good or service and the quantity people are willing to buy? (As price rises, the quantity demanded decreases, and vice versa.)
- d. When the only thing that changes is the price of a product, what relationship exists between the price of a good or service and the quantity producers are willing to sell? (When price rises, the quantity supplied increases, and vice versa.)
- e. What happens in the market if the price is set higher than the market clearing price? (Quantity supplied is greater than quantity demanded.) Point out that this is called a surplus.
- f. At what price does a surplus occur? (All prices above the market clearing price of \$34.)

-
- g. What happens in the market if the price is set lower than the market clearing price? (Quantity demanded is greater than quantity supplied.) Point out that this is called a shortage.
 - h. At what price does a shortage occur? (All prices below the market clearing price of \$34.)

DISCUSSION: Use the questions below to review the key points of the lesson.

1. How do markets and prices help coordinate the activities of the participants in a complex economy?

- a. Prices contain information about the value of various resources, products, etc. Without needing to know the details of why a price has changed, individuals can make intelligent choices about how to use these resources.
- b. When a price rises, it indicates to producers that the value of that product is increasing, and provides an incentive to produce more of that good. Thus resources are channeled into more productive, value-creating efforts. When a price falls, it indicates that the value of the product is decreasing, and gives producers an incentive to produce less of the good (and to channel resources into a more productive effort).
- c. Prices send signals to consumers as well. When prices increase, consumers know to find alternatives, to take care of their current possessions, etc. When prices fall, consumers will buy more of the good, possibly with the idea of saving it for future use.

2. How do prices adjust in a market economy?

- a. Prices are a function of the willingness of buyers and sellers to exchange in order to obtain a new good or service. This willingness is in turn a function of the value they attach to different goods, services, and resources such as time or money. A seller will set a price at a certain level; if no one buys it at that price, they know to lower the price; if the good is constantly running out, it is a signal to the seller to raise the prices. Over the course of countless exchanges, a price will “emerge” and stabilize.
- b. Prices are never stable for long, however, due to factors such as innovation, changing attitudes, and changes in supply.

3. What role is played by the profit-seeking entrepreneur?

- a. Profit-maximizing entrepreneurs will seek out and direct their efforts toward the most productive, highly-valued uses of their resources.
- b. Entrepreneurs, as producers/sellers of goods and services, will compete with each other on price, attempting to offer potential customers the most attractive products and prices (while still being able to make a profit). This typically means lowering the price of their products.
- c. By introducing new products and improving upon existing ones, entrepreneurs can change the “value ranking” of different uses of various resources.

4. Why is interventionism in market prices often self-defeating?

- a. Shortages occur when the price is set below the market-clearing price. When this happens, consumers demand more goods than what producers are willing to supply at that price. The result is that people fail to get the goods or services that they need.
- b. Surpluses occur when the price is set above the market-clearing price. When this happens, producers supply more goods than what consumers are willing to buy at that price. The result is that resources and products go unused and are thus wasted.



Lesson Recap

- Prices contain information about how people value various resources and products.
- Prices emerge from the countless exchange interactions between buyers and sellers of a particular good or service. Prices are constantly changing due to various disruptions in the market.
- When a price rises, it indicates to producers that the value of that product is increasing, and provides an incentive to produce more of that good. When a price falls, it indicates that the value of the product is decreasing, and gives producers an incentive to produce less of the good.
- Prices send signals to consumers as well. When prices increase, consumers know to find alternatives, to take care of their current possessions, etc. When prices fall, consumers will tend to buy more of the good.
- Government interference with market prices distorts the information transmitted by prices and leads to undesirable shortages and surpluses.
- Shortages occur when the price is set below the market-clearing price. The result is that people fail to get the goods or services that they need.
- Surpluses occur when the price is set above the market-clearing price. The result is that resources and products go unused and are thus wasted.

Additional Resources

ARTICLE: [The Economics of Price Fixing](#), by D.T. Armentano (FEE.org)

“The most important function of a free price (a price not fixed or regulated by the state) is its ability to serve as an indication of the relative scarcity of a commodity, and automatically ration that scarce commodity to the highest demander. As long as the price of an article is allowed to fluctuate and match the supply with demand, there will be neither surpluses nor shortages, i.e., the market will be cleared at some equilibrium price.”

ARTICLE: [Prices](#), by Ludwig von Mises (FEE.org)

“The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. By competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual.”

BOOK: [Economics in One Lesson - How the Price System Works](#) by Henry Hazlitt (FEE.org)

“The whole argument of this book may be summed up in the statement that in studying the effects of any given economic proposal we must trace not merely the immediate results but the results in the long run, not merely the primary consequences but the secondary consequences, and not merely the effects on some special group but the effects on everyone.”

VIDEO: [Price Supply and Demand in a Free Market Economy](#) (21st Century Education, 5:58 min)

“In a free market economy, price functions as the controlling mechanism that alleviates great shortages or surpluses.”

ARTICLE: [Where Do Prices Come From?](#) By Russell Roberts (The Library of Economics and Liberty) – “Prices adjust to equate how much people want to buy with how much they want to sell. And if people want to buy more than they did before, prices rise. If people want to sell more than they did before, prices fall”

VIDEO: [Market Equilibrium](#) (Khan Academy, 10:16 min)

“Equilibrium price and quantity for supply and demand”

VIDEO: [Changes in Market Equilibrium](#) (Khan Academy, 9:04 min)

“How the equilibrium price or quantity might change due to changes in supply or demand.”

LESSON 3 – THE FUNCTION OF PROFITS

Description:

The goal of every business is to make a profit. Profit is money made after accounting for all relevant expenses; it is the difference between revenue (money gained from sales and investment) and expenses (including the costs of making and selling the product, salaries, and any fixed costs such as rent, etc.). Profits incentivize entrepreneurs to allocate resources towards their most productive uses and in ways that provide the most value to consumers. In short, profits play a key role in directing resources to where they are most valued by people in society.

In this lesson, students will watch and discuss a short video about the price system with Professor Daniel Smith. After the video discussion, students will read two articles – ‘The Function of Profits’ by Henry Hazlitt and ‘Letter to Grandson’ by Mr Kent. The first article discusses the role of profits in the market. The second provides an illustrative example about how entrepreneurial profits benefit people in society.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?

Module 4 – How Does Trade Create Wealth?

Lesson 5.1 – Role of Prices

Lesson 5.2 – How Market Prices Emerge

5.3.A – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [The Price System, Part 2: Profits & Losses](#) by Dan Smith (Learn Liberty, 3:04 min)

“What is the social function of profits and losses? As Professor Daniel J. Smith of Troy University describes, they provide an incentive for people to follow the information provided by the price system. By pursuing profits and avoiding losses, producers and consumers use scarce resources in effective ways. In anticipation of being rewarded with profit, people and businesses are encouraged to undertake activity that will create valuable outputs. At the same time, the potential for losses encourages them to avoid excessive risks and wasteful activity. Policies that reduce profits, such as taxation, or reduce losses, such as bailouts, disrupt this function of prices and lead to inefficient uses of resources.”

DISCUSSION QUESTIONS: The Price System, Part 2: Profits & Losses

1. *What role do profits play for the entrepreneur?*

- a. Profits are the reward for an entrepreneur being alert to and successfully acting to satisfy urgently demanded opportunities in the market.
- b. The pursuit of profit creates incentives for entrepreneurs to allocate resources towards their most productive uses and in ways that provide the most value to consumers. This creates efficiency in the market and frees up both resources and labor to be used for other purposes.

2. *What does Professor Daniel J Smith mean by the statement “Bankruptcy is not a failure of the market”? Should the government intervene in the market to protect large companies against bankruptcy?*

- a. Professor Daniel J Smith explains “Bankruptcy is not a failure of the market. It is the market working... When that happens, those company’s resources are reallocated to be used by more successful businesses.”
- b. In other words, when a company goes bankrupt it is because they have been a poor steward of scarce resources. They are not producing what consumers value in a productive way. Through the bankruptcy process, the inefficiently used or mismanaged resources can be freed for use by other companies that can better satisfy consumer needs.
- c. If the government protects companies against bankruptcy, it encourages excessively risky behavior and removes incentives for companies to behave responsibly. This is what economists call *moral hazard*.

5.3.B - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Economics in One Lesson - The Function of Profits](#) by Henry Hazlitt (FEE.org)

“Profits, in short, resulting from the relationships of costs to prices, not only tell us which goods it is most economical to make, but which are the most economical ways to make them. These questions must be answered by a socialist system no less than by a capitalist one; they must be answered by any conceivable economic system; and for the overwhelming bulk of the commodities and services that are produced, the answers supplied by profit and loss under competitive free enterprise are incomparably superior to those that could be obtained by any other method.”

DISCUSSION QUESTIONS: Economics in One Lesson - The Function of Profits

1. According to Henry Hazlitt, what is the function of profits?

- a. Profits incentivize people to produce goods and services that are of value to others. Profits help to direct scarce resources to where they are most urgently needed to satisfy the wants and needs of the people in society. Hazlitt explains the function of profits is "...to guide and channel the factors of production so as to apportion the relative output of thousands of different commodities in accordance with demand."
- b. Profits also drive businesses to continuously improve the way they serve their customers. The author states that profits will maximize production and minimize shortages as well as put constant pressure on every competitive business to introduce further economies and efficiencies.

2. What are some of the common misconceptions about profit and business the author discusses in the article?

- a. There is often a misconception that all businesses make large amounts of profit. The author uses the example of General Motors – one of the biggest companies in the world. People have the perception that the profits of General Motors are incredibly common, when in reality this company is one of the few exceptionally high performing. [Note: This text was published in 1946. General Motors filed for Chapter 11 bankruptcy in 2009. Even companies that make large profits at one time must continue to serve customers well in order to make ongoing profits.]
- b. People are not aware of how high the rate of failure for businesses is. The article states "About seven of each ten grocery stores opening today will survive into their second year; only four of the ten may expect to celebrate their fourth birthday".
- c. There are often negative public sentiments associated with high-performing companies and individuals who make large profits. However, if these companies didn't exist everyone would be worse off due to higher unemployment in the economy and less goods and services available for consumption.

3. What happens to producers and consumers in the market when the government intervenes to restrict profit opportunities? In what ways might government intervention be self-defeating?

- a. If the government intervenes to confiscate large amounts of profit, or puts in place price barriers that restrict the profit opportunities for a particular good, there is less incentive for an entrepreneur to produce it. This leads to some products not being produced at all, causing shortages. One example is the decrease in production that occurred when the government imposed the war-time excess profits tax.
- b. Producers lose incentives to produce when profit opportunities are restricted. Correspondingly, producers have less income to be consumer of other products and fewer goods of value available to consume. The general standard of living for people in society tends to fall relative to restrictions of entrepreneurial profit opportunities.

5.3.C - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [Letter to a Grandson - Mr. Kent](#) (Free Market Foundation)

“Are profits earned at the expense of someone else?”

DISCUSSION QUESTIONS: Letter to a Grandson - Mr. Kent

1. Using examples from Mr. Kent’s letter, explain how people benefit when an entrepreneur earns high profits.

- a. In order to make a profit, entrepreneurs must provide something that gives value to others. In the example in the letter, the entrepreneur who makes a trough of water makes everyone’s life significantly easier by saving those people fifty minutes of their day. The entrepreneur profits by earning the equivalent of 10 minutes of everyone else’s production time. Both the entrepreneur and everyone in the community win because they are all saving themselves time and their lives have become better.
- b. People benefit both in terms of a wider range of goods and services they can consume and the time they save from not having to produce those goods by themselves.

2. Why is it essential to have a good legal system that protects private ownership?

- a. The letter explores what could happen if there was no legal system to protect private ownership. In the letter, Mr. Kent states, “When the hundredth man had completed his trough down the mountain and said to the other ninety-nine “If you will give me what it takes you 10 minutes to produce, I will let you get water from my basin”, they turned to him and said “We are ninety-nine and you are only one. We will take whatever we want””.
- b. Without a reliable legal system to protect private ownership, the entrepreneur would have less incentive to produce and innovate in the first place. This makes everyone in the community worse off.

Lesson Recap

- Profits are the reward for an entrepreneur being alert to (and successfully acting to) satisfy the most urgently demanded opportunities in the market.
- Profits provide incentive for entrepreneurs to allocate resources towards their most productive uses and in ways that provide the most value to consumers.
- Producers lose incentives to produce when profit opportunities are restricted.
- The general standard of living for people in society tends to rise and fall relative to the level of restrictions placed on entrepreneurs' ability to profit.

Additional Resources

ARTICLE: [Windfall Profits](#) by Robert G. Anderson (FEE.org)

"Among the charges most feared is the accusation that the firm has reaped windfall profits. While "normal" profits might be tolerated, anything above so-called normalcy is invariably subject to public charges of exploitation. The implication subtly drawn is that windfall profits accrue as a result of someone else's losses. While the public might overlook small injustices, large profits are simply intolerable. This massive assault on profit-making reflects a belief that profits are something extra, the elimination of which would result in a general improvement in human welfare, that profits are gained at the expense of others—"unearned" and "unjust." This anti-profit mentality stems from a failure to understand the true nature and source of profits, the integral relationship existing between profits and losses, and their basic importance to the functioning of the market system."

ARTICLE: [The Pursuit of Profit is Pro-Social](#) by Matthew McCaffrey (FEE.org)

"In fact, that's the beauty of free-market enterprise: it's social whether it pursues an explicit social agenda or not. Critics of government intervention often point out that good intentions don't equate to good policies. Likewise, the absence of good intentions doesn't equate to bad policy, and lacking a specific social goal doesn't make entrepreneurs antisocial. Think of Adam Smith's observation about the butcher, brewer, and baker, which reveals that commerce is social because it's mutually beneficial, not because entrepreneurs necessarily have a larger agenda."

PODCAST: [Munger on Profits, Entrepreneurship, and Storytelling](#) (EconTalk, 60:04 min)

"Mike Munger of Duke University talks with EconTalk host Russ Roberts about profit. What is profit's role in allocating resources? How should we feel about the people who earn profits or who take them in ways that may not be earned? How easy is it to discover profitable opportunities? Munger examines these questions through a series of stories, real and fictional, to illuminate the sometimes puzzling nature of profit."

VIDEO: [Profit, Loss, and Discovery](#) (Learn Liberty, 54:26 min)

“Economics professor Howie Baetjer of Towson University explains how the market process generates improvements in the human condition. In particular, he highlights how profit & loss serve to help people channel their activities in creative and socially useful directions. Filmed at the 2006 IHS seminar "Exploring Liberty" at Princeton University.”

LESSON 4 – THE IMPORTANCE OF LOSS

Description:

In [Human Action](#), Ludwig von Mises writes, “*The direction of all economic affairs is in the market society a task of the entrepreneurs. They are at the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to obey unconditionally the captain's orders. The captain is the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.*”

In this lesson, students will read *The Economics of Errant Entrepreneurs* by Israel M. Kirzner and *The Importance of Failure* by Steven Horwitz. Students will then complete a research activity to find examples of entrepreneurs who benefited from their own failures. Finally, students will watch a video in which Milton Friedman explains the importance of loss.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?

Module 4 – How Does Trade Create Wealth?

Lesson 5.1 – Role of Prices

Lesson 5.2 – How Market Prices Emerge

Lesson 5.3 – The Function of Profits

5.4.A - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [The Economics of Errant Entrepreneurs](#) by Israel M. Kirzner (FEE.org)

“A profitable entrepreneurial venture benefits society in a way central to the logic of capitalist success. If an entrepreneur hires productive services for one million dollars and produces consumer goods that are bought for two million dollars, this means that services that might otherwise have produced goods judged to be worth not much more than one million have, in fact, produced goods that are much more valuable to market participants, as measured by money offered. An unprofitable venture, on the other hand, has harmed society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth less than other goods that could have been alternatively produced.”

DISCUSSION QUESTIONS: The Economics of Errant Entrepreneurs

1. *How does an unprofitable venture harm society?*

- a. Dr. Kirzner explains, “An unprofitable venture, on the other hand, has harmed society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth less than other goods that could have been alternatively produced....The truth is that each and every entrepreneurial error represents a tragic waste of resources.”
- b. A profitable venture helps society as the entrepreneur creates value for himself or herself while creating value for others.

2. *What is the one benefit to society of unsuccessful entrepreneurial activities?*

- a. Members of society benefit from superior entrepreneurial judgment. When errant entrepreneurs fail to use resources in a way that people value, they suffer losses and are encouraged to put resources to a more valued use.
- b. Dr. Kirzner explains, “...the one really valuable feature of unprofitable entrepreneurial endeavor lies in its crucially important role in stimulating profitable entrepreneurship. Only in a society where entrepreneurs are free to make errors, can we expect an outpouring of entrepreneurship to lift its economy to new, hitherto unglimped, heights of prosperity”.

3. *What does the author mean by the statement “As Henry Hazlitt taught us, the true costs of waste are always unseen – yet are nonetheless real and poignant”?*

- a. Every entrepreneurial error represents a waste of resources. When an entrepreneur is unprofitable, we never see what other more profitable ways those resources could have been used.
- b. These resources are tied up in activities that do not maximize value for people and can no longer be used for more satisfying activities. We may never know what alternative products or jobs the unprofitable ventures kept from coming into existence.

4. Briefly describe the role of profit and loss signals in the market to prevent and correct failure. How might this differ from the incentives government faces when it is shielded from profit and loss?

- The market provides incentives not to waste resources, and to quickly correct errors as they occur.
- The government does not operate using profit and loss signals from the consumers they purport to serve. As a result, resource waste is common and errors are rarely corrected. Moreover, failed government programs are often held as reasons for needing larger budgets to fund the program.

5.4.B - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [The Importance of Failure](#) by Steven Horwitz (FEE.org)

“More important than this individual learning process is the irreplaceable role failure plays in the social learning process of the competitive market. When we refuse to allow failure to happen, or we cushion its blow, we ultimately harm not only the person who failed but also all of society by denying ourselves a key way to learn how best to allocate resources. Without failure there’s no economic growth or improved human well-being.”

DISCUSSION QUESTIONS: The Importance of Failure

1. *Why is failure important? What is the importance of failure as discussed by the author in this article?*

- a. Failure is important because it enables the entrepreneur to learn from mistakes, correct mistakes, and find new knowledge and better ways of producing things.
- b. The author explains “Failed entrepreneurial activity is just as important as successful entrepreneurial activity. Markets are desirable not because they lead smoothly to improved knowledge and better coordination but because they provide a process for learning from our mistakes and the incentives to correct them.”

2. *What are possible consequences of policies put in place to prevent or cushion business failure?*

- a. Prof Horwitz explains, “The subsidies, bailouts, stimulus packages, and other interventions that now increasingly characterize the US economy disrupt this [social learning] process.” Not allowing Chrysler and General Motors to fail during the recession prevented the market response to correct the misuse of resources. As a result, the companies continued making cars when their losses showed these resources could have been put towards producing something that provided value to people in society.
- b. In addition, government interventions to prevent failure prevent new entrepreneurs from entering the market and doing things better. When companies fail, the physical assets of the failed company do not disappear. The stewardship of those scarce resources simply transfers to more responsible owners.
- c. Finally, everyone in society bears the cost of these policies in the form of increased taxes and fewer varieties of goods and services of high value to consume. The author uses the example of Walt Disney – if the government didn’t let the Laugh-O-Gram Corporation fail, we would never have had the ‘Disney’ we know today.

5.4.C – Watch the following video and be prepared to answer the questions that follow [15 min]:

VIDEO: [Milton Friedman - GM Auto Bailout](#) (PenguinProseMedia, 2:05 min)

“Milton Friedman explains the necessity in a free market system of allowing unsuccessful businesses to go bankrupt without the government bailing them out. The free market is a system of profit AND loss where the consumer decides who wins, NOT the federal government.”

DISCUSSION QUESTIONS: Milton Friedman – GM Auto Bailout

1. *Why is Milton Friedman so adamant about the Federal Government NOT bailing out big automobile manufacturers?*

- a. Milton Friedman repeatedly asserts the importance of loss in a free market economy. When referring to the free market, he states, “...the loss part is just as essential as the profit part and it’s a disgrace that we should be bailing out Chrysler. Chrysler ought to be allowed to go broke!”
- b. He explains that losses are what “...gets rid of badly managed and poorly operated companies.”
- c. When a company fails or shows losses, it’s up to the company to re-evaluate its products and/or processes in order to satisfy consumer demands.
- d. It’s not up to taxpayers to cover the losses of failing companies (i.e. bailouts).

2. *What are the positive effects following the failure of a company that was not using resources in the way that served the wants and needs of people?*

- a. Milton Friedman explains that when a company goes bankrupt, the company does not simply disappear. On the contrary, the company’s assets are able to be directed toward more productive uses under new management.
- b. It is not the government’s responsibility to “save” a company (big or small) from going out of business. Furthermore, government bailouts come at the expense of other people in society, and prevent scarce resources from being reorganized to better create value in the future.

Lesson Recap

- Failure is important because it enables the entrepreneur to learn from mistakes, correct mistakes, and find new and better ways of producing things.
- When entrepreneurs fail, it is harmful to society in that the resources involved are not being used in their most productive capacity; such failure can also prevent new, more productive uses from coming into existence.
- Failure does have a beneficial aspect. It allows entrepreneurs to learn from and correct mistakes and to identify better, more productive ways to use resources. Society benefits from such improved knowledge, as businesses are better able to create value for their customers. Additionally, when a company fails, its assets are able to be directed toward more productive uses.
- Government intervention to prevent failure is harmful in two ways. First, by not allowing businesses to fail, such intervention prevents business owners from learning from their mistakes and perpetuates inefficient, less-productive practices. Second, when a poorly-performing company stays in business, its assets are not able to be used by more effective owners.

Additional Resources

PODCAST: [McArdle on Failure, Success, and the Up Side of Down](#) (EconTalk)

“Megan McArdle of Bloomberg View and author of *The Up Side of Down* talks with EconTalk host Russ Roberts about her book. McArdle argues that failure is a crucial part of success in personal life and in large the economy. Topics covered include the psychology of failure, unemployment, bankruptcy and parole.”

VIDEO: [Profit, Loss, and Discovery](#) (LearnLiberty, 54:26 min)

In this video, Prof. of Economics Howard Baetjer explains how “profit & loss serve to help people channel their activities in creative and socially useful directions.”

LESSON 5 – PROFITS: A SIGN OF SERVING OTHERS WELL

Description:

In Module 2, Lesson 3: Creating Value and Serving Others, we explored how entrepreneurs benefit others through their efforts to benefit themselves in the market. This lesson focuses more specifically on how profits tell a producer the extent to which his or her product or service creates value for others.

In this lesson students will read an article ‘He Gains Most Who Serves Best’ by Paul L. Poirot. This article discusses how profits can be used as an indicator of how well an entrepreneur is serving others. Students will then read an article by Walter E. Williams, “People Before Profits,” which addresses the same topic. Lastly, students will participate in an activity called the Coffee Shop Game.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 2.3 – Creating Value and Serving Others

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?

Module 4 – How Does Trade Create Wealth?

Lesson 5.1 – Role of Prices

Lesson 5.2 – How Market Prices Emerge

Lesson 5.3 – The Function of Profits

Lesson 5.4 – The Importance of Loss

5.5.A - Read the following article using the questions below to guide your discussion [10 min]:

ARTICLE: [He Gains Most Who Serves Best](#) by Paul L. Poirot (FEE.org)

“A businessman’s profits are a measure of his efficiency in the use of scarce and valuable resources to satisfy the most urgent wants of consumers. Having competed successfully in the market, a property owner seeks to preserve his gains. But the market continues to insist: “He gains most who serves best.” In other words, the way to preserve your gains is to keep on serving consumers efficiently; that’s the only protection of property the market can offer.”

DISCUSSION QUESTIONS: He Gains Most Who Serves Best

1. How do you know you are serving others well?

- a. The article states “A businessman’s profits are a measure of his efficiency in the use of scarce and valuable resources to satisfy the most urgent wants of consumers”.
- b. A person knows they are serving others well when they are earning a profit. The author repeatedly uses the phrase, “He gains most who serves best”. The larger the profit, the better the person is serving others.
- c. Profits are a reward for innovation and entrepreneurial skills, and an indicator that resources are being used efficiently to satisfy the wants of consumers.

2. Some people own more property than other people. Do you think this is a good thing?

- a. Maybe. This can be a difficult question to answer without more information. All property ownership is not created equally. People can acquire property by means of criminal theft, fraud, or political plunder. People can also acquire property by producing and trading for goods people want and need on the market.
- b. Unequal ownership of property based on market activity is a good thing. As the author explains, “Because the market rewards individuals according to services rendered, the result is that some persons earn and own more property than do others. Strictly by serving the masses of mankind, some individuals have been made extremely wealthy. They have been given stewardship over vast amounts of property because of their proven capacity to use such scarce resources efficiently in providing the goods and services most sought and most valued by others.”

5.5.B - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [People Before Profits](#) by Walter E. Williams (FEE.org)

DISCUSSION QUESTIONS: People Before Profits

1. *What does Professor Williams mean when he says that “profits are a cost of business?”*

- a. Williams is saying that profits are a necessary requirement for businesses to exist.
- b. If entrepreneurs are not paid (in the form of profits), then there will be little incentive to start a business in the first place.

2. *What caused Coca-Cola to abandon their new formula and return to the original Coca-Cola? What does this imply about the nature of profits?*

- a. The possibility of huge losses (negative profits) resulting from upset consumers switching to other beverages.
- b. One function of profits is to help producers discover what consumers want. When profits are high, this indicates that there is likely something about the product that consumers like; when they are low, it is likely there is something they dislike.

3. *Professor Williams uses the example of plywood being rerouted from original destinations to Florida following a bad hurricane. What role do profits play in helping others/allocation of valuable resources to those who need it most?*

- a. When a good or service is in high demand, the existing supply will begin to sell out quickly. Producers/suppliers will notice this and will raise prices in order to a) make more money and b) conserve the supply (thus enabling more people to get the resource than would if the price had remained the same).
- b. Other producers will notice the opportunity to make more money and will start selling their good or service in the area, thus bringing more resources (and lowering the price) to the people who greatly need them.

4. *How are profits able to “hold accountable” producers who make a bad product or who squander resources?*

- a. Consumers will not buy a product or service that they have heard is of poor quality, and are unlikely to buy from a company they have had bad experiences with in the past.
- b. This sends a clear signal to the producer that they need to improve their product.
- c. If they do not, they risk going out of business...this will redirect resources toward more productive uses.

5.5.C – Complete the following activity and share your ideas with the class [20 min]:

ACTIVITY: [Coffee Shop Game](#)

This game is a simulation of running a coffee stand. Students will make choices about inventory and price in an attempt to make the highest profits. It will quickly become apparent to students that they must consider what their customers want in order to be successful—in other words, they will not be able to make much profit if they serve their customers poorly.

The game can be accessed here: <http://www.coolmath-games.com/0-coffee-shop>

Directions:

The game has detailed, step-by-step instructions that appear as the game progresses, but the following is a quick overview:

- a. Each round begins with the students buying inventory (coffee, sugar, milk, and cups), altering the recipe for their coffee, and setting the price of the coffee.
- b. The next stage of the round involves customers passing by the stand. Icons appear above customers that indicate why or why not they choose to buy coffee—students should pay attention to these and make adjustments as necessary.
- c. The final stage of each round consists of a report explaining the stand’s performance that day. This report includes information about profits/losses, status of inventory, and the level of the stand’s reputation. Students should keep this information in mind during the first stage of the following round.
- d. The game takes 14 rounds to complete. If it seems like it will take too much time to complete the entire game, try to play at least 5 rounds.

DISCUSSION QUESTIONS: Coffee Shop Game

1. *How important was paying attention to the customer’s thoughts, and other relevant details (such as the weather)?*

- a. Very important. If the students ignored this, they were unable to create value for the customers, and as a result, were unable to make a profit.
- b. At the same time, if they paid close attention to the information contained in the in-game directions and the customer’s thoughts, they were able to make higher profits.
- c. In order to be successful, a business must create value for its customers, and in order to create value for its customers, it must be able to accurately determine what customers want. This is a learning process, and profits—or lack thereof—play a central role.

Lesson Recap

- Profits are a valuable signal to producers that shows how well they are creating value for their customers.
- High profits indicate that their products are highly valued, whereas low profits indicate that their products are not valued that highly and that there are superior ways to use the resources in question.
- Some individuals become extremely wealthy through serving the masses of people in society. Their high profits are proof that they used scarce resources efficiently in providing the things that are most needed and valued by others.

Additional Resources

ARTICLE: [Profit Not Just a Motive](#), by Steven Horwitz (FEE.org)

“However, if the more important role of profits is to communicate knowledge about the efficiency of resource use and enable producers to learn what they are doing well or poorly, the argument becomes much more complicated. Now the critics must explain what will tell producers what they should do and should not do in the absence of profits to tell them.”

ARTICLE: [The “Character” of Profit and Loss: Entrepreneurial Virtues](#) by Michael C. Munger [Advanced]

PODCAST: [Munger on Exchange, Exploitation and Euvoluntary Transactions](#) with Russ Roberts and Michael C. Munger (econtalk.org, 72 mins)

“Mike Munger of Duke University talks with EconTalk host Russ Roberts about the psychology, sociology, and economics of buying and selling. Why are different transactions that seemingly make both parties better off frowned on and often made illegal? In theory, all voluntary transactions should make both parties better off. But Munger argues that some transactions are more voluntary than others. Munger lists the attributes of a truly voluntary transaction, what he calls a euvoluntary transaction and argues that when transactions are not euvoluntary, they may be outlawed or seen as immoral. Related issues that are discussed include price gouging after a natural disaster, blackmail, sales of human organs, and the employment of low-wage workers.”

MODULE 6 – WHAT INSTITUTIONAL FACTORS ENCOURAGE ENTREPRENEURSHIP?

“I believe that individual freedom in free markets when combined with property rights through rule of law and ethical democratic government results in societies that maximize prosperity and establish conditions that promote human happiness and well-being.”

– JOHN MACKAY, CEO OF WHOLE FOODS

Overview:

People respond to incentives in predictable ways. The “rules of the game,” or what economists call institutions, influence the choices individuals make. Basic institutions like laws and cultural customs establish the foundational incentive structure of an economic system. Entrepreneurs are vital to economic growth and higher living standards. Societies with an institutional environment that discourages entrepreneurship tend to see few individuals involved in wealth creating activities. This lesson introduces students to the concept of institutions as we evaluate the impact specific institutions tend to have on encouraging or discouraging entrepreneurship.

Concepts and Terms:

- Classical Liberalism
- Creative Destruction
- Rules and Institutions
- Incentives
- Private Property
- Knowledge Problem
- Spontaneous Order
- Unintended Consequences
- Things Seen and Unseen
- Invisible Hand
- Protectionism

Objectives:

Students will be able to...

- Understand that people respond to incentives and that positive and negative incentives influence behavior in predictable ways
- Identify that institutions, or “rules of the game”, influence the decisions people make
- Recognize that policies not only have immediate, direct impacts on identifiable groups, but also have long-term impacts on less visible groups
- Explain how orders emerge through the actions and interactions of individuals that could never be planned or designed
- Understand why no one person or group of people could possibly obtain the relevant information needed to plan an economy

Related Standards:

STANDARD 4: INCENTIVES – People usually respond predictably to positive and negative incentives.

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



LESSON 1 – THE MARVEL OF THE MARKET

Description:

In this lesson, students explore the themes of Leonard Read’s classic essay *I, Pencil*. By following the production of an ordinary pencil, Read’s story provides a simple yet elegant account of the wonders made possible by the market process. Through voluntary exchange, people can freely and peacefully cooperate and coordinate to achieve wonders that could never be made possible by deliberate, centralized planning.

Students will watch and discuss a brief video from the Competitive Enterprise Institute adapted from Leonard Read’s essay. Then students will participate in a classroom discussion with the questions provided, followed by reading the *I, Pencil* story in its entirety.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 3 – How Can Entrepreneurs Use Economics to Make Better Decisions?



6.1.A – Watch the following video and be prepared to answer the questions that follow [25 min]:

VIDEO: [I, Pencil: The Movie](#) (Competitive Enterprise Institute, 6:32 min)

A film from the Competitive Enterprise Institute, adapted from the 1958 essay by Leonard E. Read.

“Leonard E. Read (1898–1983) established the Foundation for Economic Education in 1946. For the next 37 years he served as FEE’s president and labored tirelessly to promote and advance liberty. He was a natural leader who, at a crucial moment in American history, roused the forces defending individual freedom and private property. Read was the author of 29 books and hundreds of essays. “I, Pencil,” his most famous essay, was first published in 1958. Although a few of the manufacturing details and place names have changed, the principles endure.”

DISCUSSION QUESTIONS: I, Pencil

Teacher Tip: Students may answer questions individually or as a classroom discussion.

1. *What do you think about the author’s claim that not a single person on the face of the earth has the knowledge required to make an ordinary pencil?*

- a. A vast and countless number of people had a hand in making the pencil through the contributions of their work and knowledge. The pencil is the result of a long line of individual contributions the author calls the pencil’s family tree.
- b. Each member of this family tree supplies only a small amount of the necessary knowledge it takes to make a pencil.
- c. “There isn’t a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how.”
- d. The knowledge individuals have about the many processes required to make a pencil today builds upon the knowledge discovered by and passed down from those who have come before us. A pencil is the result of a symphony of human activity that spans the globe, and even spans across time.

2. *Even if you did have the knowledge to make a pencil, would you spend your time doing so? Why or why not?*

- a. The *opportunity cost* of independently making your own pencil is very high. It would take an incredible amount of time and money just to get the necessary materials. Additionally, you would have to produce the tools and equipment necessary to obtain and transport the materials.
- b. The wood comes from cedar trees in the Pacific Northwest. The metals that combine to form the ferule are mined from all different parts of the world. The ingredients for the rubber are sourced from across the globe as well. The graphite is mined in China and Sri Lanka.
- c. Even if you knew exactly *how* to build a pencil it could take a single individual an entire lifetime to build one like you might find at your local store for less than a quarter. If you were to spend all of your time devoted to building a pencil from scratch, you would not have time for any of the other things you enjoy.

3. *How is it possible that you can buy a pencil for less than a quarter from your local store when it requires resources from around the globe and inputs from countless people to create?*

- a. We are all the “ignorant beneficiaries” of the intricacy and brilliance of the market process. In other words, without even knowing how or why, we all benefit immensely from specialization, division of labor, and gains from trade.
- b. The market process allows us to focus on the things we are comparatively good at doing and then trading with others for the things we want and need. When we buy a pencil we are essentially trading a few minutes (or even seconds) of our time for all the minute fractions of time contributed by those who played a role in producing the pencil.
- c. **Note:** [Adam Smith](#) attributes the main cause of prosperity to increasing division of labor. In his famous example of manufacturing pins, Smith asserts that ten workers could produce thousands of pins per day if labor is divided into specialized tasks. In contrast, Smith explains that a worker would be lucky to produce even one pin per day if he or she is working independently.
- d. Free markets of voluntary exchange permit for increased division of labor and specialization between large numbers of individuals who engage in trade.

4. *It takes an incredible amount of cooperation between people from around the world with very different wants and needs to make the story of I, Pencil possible. Some of these people may not even like each other if they ever met. How is this cooperation made possible?*

- a. Free markets encourage and promote cooperation, peace, and harmony. It is advantageous for people to trade with one another for mutual benefit. People have good reasons to endorse common rules regarding social interactions that tend to promote prosperity. For this reason, as people interact voluntarily in the market, systems of order and cooperation emerge.
- b. Language and culture are two important examples of the voluntary arrangements of cooperation in society that emerge as individuals interact with one another. Economists call these emergent systems “spontaneous orders” because they emerge without any central plan or deliberate design. Another important example of spontaneous orders that emerge as people interact freely over time are prices in the market.
- c. A freely functioning system of market prices both reflects and encourages social cooperation.
- d. Stable, enforceable rules also encourage cooperation. Chief among these is protection of private property.

5. *What is the “invisible hand” that is referenced in story of I, Pencil?*

- a. This is referenced in the story: “There is a fact still more astounding: the absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work.”
- b. Adam Smith’s ‘invisible hand’ guides each of the thousands—perhaps even millions—of individuals to coordinate their behavior to produce our pencils. The invisible hand is not a thing, but a metaphor for the process from which order emerges without anyone designing the outcome ahead of time.
- c. “For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive masterminding.

6. *How are all of the countless people involved in the pencil's family tree able to effectively coordinate where and when resources are needed if there is no central economic planner or mastermind directing the effort?*

- a. It is a functioning price system that allows for economic coordination to take place. Prices for the factors required in the production of a pencil emerge as buyers and sellers freely interact in the market. These prices reflect tiny bits of local knowledge in a complex and ever-changing market. Prices also incentivize buyers and sellers to economize resources and efficiently direct resources toward their highest and best use for serving the needs of consumers. We can say that prices are incentives wrapped in knowledge.
- b. Although there is no mastermind responsible for the entire production of a pencil, we can imagine that the entrepreneurs and employees at each stage of the process have individual plans about what they need to buy and sell for their business to remain profitable. The question is not whether or not there should be a plan. The question is who should do the planning. Should plans be made by some central mastermind? Or, should planning be left to individuals with specific, local knowledge of their needs and the situational factors that impact their decision?

7. *If there was a central planner in full control of pencil production, what do you think would be the result? Why?*

- a. If there were a single person, board, or committee in full control of pencil production it is not likely that a pencil would ever get produced as effectively and inexpensively as it is today in the market. It is impossible for the central planner to access the local knowledge possessed by the millions of individuals in the pencil's family tree. Each person has unique knowledge of his or her needs amidst constantly changing circumstances. Prices in the market economy result from this local knowledge; knowledge that can never be replicated by a central planner without market prices. This is why Nobel prize-winning economist F. A. Hayek called attempts at economic central planning as the "pretense of knowledge."
- b. The key to economic coordination is a functioning price system. To the extent that market prices are rejected or inhibited from emerging is the extent to which economic chaos can be expected.
- c. Furthermore, it is unlikely we would experience many innovations as entrepreneurs compete to better serve their customers.

8. *Many of the people involved with the creation of the pencil have no desire for the pencil itself. Some may have never seen a pencil. Others may not even know they are contributing to the creation of a pencil. If they don't want the actual pencil, why do the people in the pencil's complex family tree work to create a pencil? What else might they want instead?*

- a. Most people working in myriad of processes required to ultimately make a pencil care little that the end result is a pencil. They are working for their self-interested goals. They want to earn a profit for their labor in order to afford to obtain the things they want and need.
- b. Leonard Read eloquently writes, "Millions of human beings have had a hand in the creation of a pencil. Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants."

9. *Why do you think the author chooses a pencil as the object around which to focus his story? Does this story reflect how the world actually works? Would the same lesson apply to more complex products like cars, airplanes, or smartphones?*

- a. A pencil is a common, familiar, and seemingly simple object. Yet, the processes involved in creating this basic product quickly expands into a remarkably complex web inputs.
- b. The same factors apply for producing the more complex things we want and need like food, health care, education, and entertainment.

Teacher Tip: If you run out of time, students may read it on their own as self-study:

6.1.B – Read the following story in its entirety [20 min]:

Article: [*I, Pencil: My Family Tree - Leonard Reed*](#) (FEE.org)

“Not a single person in the world knows all the processes required to make a pencil and yet voluntary exchange enables hundreds of people to cooperate together in their production without any central direction.”

Lesson Recap

- Even a seemingly simple product like a pencil is the result of a symphony of human activity that spans the globe, and even spans across time.
- Even if you did have the knowledge to make a pencil, the opportunity cost of doing so is very high.
- We all benefit immensely from specialization, division of labor, and gains from trade, sometimes not even realizing it.
- A functioning price system allows for economic coordination to take place in a complex economy. Prices for the factors required in the production of a pencil emerge as buyers and sellers act on their localized knowledge through market exchanges.
- A freely functioning system of market prices both reflects and encourages social cooperation.
- It is impossible for the central planner to access the local knowledge possessed by the millions of individuals in the pencil's family tree.
- Specialization allows for individuals to focus on a specific trade they are best at doing which increases efficiency, saves time, and increases overall wealth.
- Stable, enforceable rules also encourage cooperation. Chief among these is protection of private property.

Additional Resources

VIDEO: [I, Pencil Extended Commentary: Connectivity](#) (Competitive Enterprise Institute, 3:25 min)

Through markets, when you buy a pencil you are helping people do things they value. We are connected to people in distant places in ways that are unimaginable.

- Art Carden, Assistant Professor of Economics at Samford University;
- Deirdre McCloskey, Distinguished Professor of Economics, History, English and Communications at the University of Illinois at Chicago
- Lawrence W. Reed, President of the Foundation for Economic Education
- Walter E. Williams, John M. Olin Distinguished Professor of Economics at George Mason University
- Other videos in the Extended Commentary series:

VIDEO: [I, Pencil Extended Commentary: Spontaneous Order](#)

VIDEO: [I, Pencil Extended Commentary: Trade & Specialization](#)

VIDEO: [I, Pencil Extended Commentary: The Importance of I, Pencil](#)

VIDEO: [Milton Friedman - I, Pencil](#) (Free to Choose Network, 2:25 min)

“Milton Friedman discusses the market forces involved in creating a single pencil.”

VIDEO: [Thomas Thwaites: How I built a toaster — from scratch](#) (TED.com, 10:48 min)

“It takes an entire civilization to build a toaster. Designer Thomas Thwaites found out the hard way, by attempting to build one from scratch: mining ore for steel, deriving plastic from oil ... it's frankly amazing he got as far as he got. A parable of our interconnected society, for designers and consumers alike.”

ARTICLE: [Henry Ford and the Triumph of the Auto Industry](#) by Burton Folsom (FEE.org)

“What was remarkable was that Ford grasped the implications of a horseless carriage and had the vision, perseverance, and ability to make cars for the multitude of Americans. Many experts scoffed at the car. Woodrow Wilson called it the “new symbol of wealth’s arrogance.” But Ford dreamed of improving its quality, cutting its price, and selling millions of them to average Americans all over the country.”

VIDEO: [The Role of Institutions](#) by Chris Coyne (The Independent Institute, 44:32 min)

“Chris Coyne discusses institutions, spontaneous order, and the market process. Each individual pursues their ends, whatever those are, to the best of their ability. In other words they utilize the means that they know, that they think are the best to achieve their end.”

ARTICLE: [Rinkonomics: A Window on Spontaneous Order](#) by Daniel B. Klein (The Library of Economics and Liberty)

“The key to social order...is this coincidence of interest. I do not intend to promote your interest. I am not necessarily even aware of it. Still, by looking out for myself I am to that extent also looking out for you. My actions promote your interest.”

ARTICLE: [The Reality of Markets](#) by Russell Roberts (The Library of Economics and Liberty)

“There is a third category of experience – phenomena that are the product of human action and not human design.”

LESSON 2 – WHEN ORDER EMERGES

Description:

One of the most magical phenomena we find in nature is the emergent beauty of spontaneous order. This concept applies to markets as well. An understanding and appreciation of the spontaneous orders that surround us is essential for understanding markets, customs, culture, language, music, and society itself.”

In this lesson students will watch and discuss a video explaining the concept of spontaneous order - “Can Order Be Unplanned?” with Professor Tom W. Bell. Next students will read an article by Sandy Ikeda and complete an activity reinforcing the “magic” of spontaneous order. Then students will end the lesson with a wonderful and inspiring video called “The Beauty of Emergent Order” with John Papola.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, set of index cards, enough candy to have at least one piece for each student, sticky tape

Prerequisites:

6.1 – The Marvel of the Market



6.2.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Can Order Be Unplanned?](#) (Learn Liberty, 3:26 min)

“Can Order Be Unplanned? Some people assume that for there to be order in human society, there needs to be some central planning or direction. But as Chapman University Professor Tom W. Bell explains, much of the order we observe in our lives is not the product of human design; it’s a product of spontaneous order. Drawing from the work of Adam Smith and Friedrich Hayek, Bell describes how an understanding of spontaneous orders helps us to understand markets, language, social norms, customs, and society itself.”

DISCUSSION QUESTIONS: Can Order Be Unplanned?

1. What is spontaneous order? Who is in charge of the market when spontaneous order exists?

- a. Spontaneous order occurs when a seemingly, but unplanned logical order emerges from individuals following their own plans and acting for their own self-interest. Professor Bell uses the example of the beach to show how order emerges that was not the design or rational plan of anyone one person. There is no mastermind. Order emerges spontaneously as individuals follow their own, individual plans.
- b. Professor Tom W Bell explains “So who’s in charge of markets, of language, and of crowds at the beach? Everyone in general but no one in particular.”
- c. Professor Tom W Bell uses the example of the beach to explain spontaneous order – “Have you ever been to the beach and wondered who’s in charge here? A keen eye will certainly discern intriguing patterns of people in certain places. In one area of the beach for instance, you might spot a bevy of preening young ladies. Not far away you will likely find young men, showing off the same. Elsewhere, you might see a cluster of families watching their children play together at the edge of the surf. Pale tourists clog some stretches of sand while others seem to attract only tanned locals. These mini neighborhoods of like-minded beach go-ers ebb and flow like the tide itself. Nobody plans them, yet they do not arise purely by chance. They result from human action not from human design.”

2. What are some of the benefits of spontaneous orders that emerge from individuals pursuing their own self-interests?

- a. Adam Smith explains, “By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.” This means that if everyone is acting in their own self-interest, they tend to promote the interests of society in general.
- b. Friedrich Hayek explains, “Although there was a time when men believed that even language and morals had been ‘invented’ by some genius of the past, everybody recognizes now that they are the outcome of a process of evolution whose results nobody foresaw or designed.” He explains that one of the benefits of spontaneous order is the new innovations and changes that come with it.
- c. If the market is free of central planning and spontaneous order can occur, people will act in the interests of themselves, which is the most effective way of promoting the interests of a society and allowing people to have the freedom to make their own choices.

3. What did Friedrich Hayek think about the idea that society must be deliberately planned to achieve and maintain order?

- a. Friedrich Hayek explains, “If indignant reformers still complain of the chaos of economic affairs insinuating an absence of order, this is partly because they cannot conceive of an order which is not deliberately made.”
- b. Hayek calls the idea that modern society must be deliberately planned as the fatal conceit. He explains that if we don’t understand the concept of spontaneous orders, then we cannot understand markets, customary norms, or society itself.

6.2.B - Read the following article about spontaneous order and complete the activity that follows [15 min]:

ARTICLE: [Cavemen, Money, and Spontaneous Orders](#) by Sandy Ikeda (The Freeman, FEE.org)

DISCUSSION QUESTIONS: Cavemen, Money, and Spontaneous Orders

1. *Money isn’t a product of nature, nor was it invented by man, so how did it come into being?*

- a. “The thing to notice about this story is that at no point did anyone *invent* money. Rather, there was a long, step-by-step process that involved human action—trading goods for something that gradually (and unintentionally) became more and more marketable because others were using them that way. And from that process, over time, money emerged.”
- b. “People who tried to barter their labor for things they wanted to consume soon discovered that it would be easier to trade their labor for something that, even if they didn’t want it for themselves, they knew others would want in trade. That’s how cows, sea shells, wampum, and eventually precious metals came to be used as media of exchange.”
 - a. “When a particular medium of exchange becomes so popular that you’re sure that anyone would accept it in exchange, it becomes money—in technical terms, a good primarily valued for direct use that evolves into a good primarily valued for its indirect use as a medium of exchange.”
 - b. [Carl Menger](#), founder of the Austrian school of economics, was the first to distinguish between a good’s use value and its exchange value. ([Principles of Economics](#)).
- c. “The iPad, like money, is the result of a long evolutionary process that began, well, with the caveman. Some say Steve Jobs invented the iPad—and in a real sense he did—but he could never have actually produced it on his own, without the support of all that historical infrastructure, developed over a long process of exchange.”
 - a. Historically, social science—economics in particular—really was born with the realization that in addition to the natural and the manmade there is a third category.
 - b. We refer to it today as “spontaneous order,” which is, to use a phrase that F.A. Hayek culled from [Adam Ferguson](#) (a contemporary of Adam Smith): “the result of human action but not of human design.”

2. *What is one similarity shared between money, language, and other complex social phenomena?*

- a. It would not be possible to design and implement these complex social phenomena through deliberate, rational planning.
- b. Complex social phenomena are the result of spontaneous order that emerges from individuals following their own plans and their own self-interest.
- c. It shows the limits of human reason in shaping and directing social order.

6.2.C – Complete the following activity to witness the magic of how spontaneous order emerges [15 min].

ACTIVITY: Magic of Market Coordination *[requires a minimum of 15 students to be effective]*

Required Materials:

- Set of index cards
- Writing instrument
- Enough candy to have at least one piece for each student
- Sticky tape

Directions:

1. Ask for three volunteers to be interviewers and set them up at a desk that are located side by side on one end of the classroom.
2. Without telling them, give each of them a different set of instructions – ask interviewer A to ask each student their name, graduation year and favorite subject. Ask interviewer B to ask those three questions plus the students’ food and favorite TV show. Ask interviewer C to ask those three questions and the “phrase that best describes you”. Give each interviewer a stack of index cards to write the answers on. Explain that the interviewer must ask each student the questions they were given and write the answers down on an index card.
3. Ask the class to play a “getting to know you” game that involves answering a few questions about themselves in return for candy.
4. Tell the class that they may enter any line they wish and that they are not stuck to any line once they have entered it – they can move to different lines. You may want to announce this again throughout the game.
5. Tell the students you are making a prediction about the outcome of the game and are going to write it on one of the index cards. Write “All lines will clear at the same time” on the back of a card and tape it on the board.
6. As the game begins students will usually move to the line closest to them, but as they see the lines moving at different speeds they will start to move lines. More students will start counting how many people are in each line and moving around. As the experiment comes to an end students will move around so that all lines clear at approximately the same time.
7. Reveal to the students what you wrote on the index card stuck on the board
8. Use the discussion questions below as a guide for your class discussion.

DISCUSSION QUESTIONS:

1. *What is one similarity shared between money, language, and other complex social phenomena?*
2. *Why did all lines finish at the same time?*
3. *How many people switched lines? Why?*

Teacher Tip: At this point tell the students that each line had a different set of questions and it actually took longer to go through some lines than others.

4. *What was the incentive to switch lines?*
5. *What was in place that ensured coordination among the class?*
 - All the class needed to coordinate was an incentive (candy and being able to sit down quickly) and knowing the rules (that they were allowed to change lines).

Teacher Tip: Explain that the coordination in the classroom was due to human action but not human design and that this represents how a market works.

6. *What would happen if one of the lines had cash prizes instead of small pieces of candy?*

6.2.D – Students will watch a video and answer the questions that follow about the beauty of emergent order [5 min]:

VIDEO: [The Beauty of Emergent Order \(excerpt\)](#) [Voice and Exit, 3:24 min]

“Harmony emerges when you “fly” with your instincts! John Papola discusses the unplanned order of nature, economics and life. Papola believes that the best way to communicate the concept is to find the beauty in it. With attempted control, history has shown time and again that it creates chaos, collision, and disorder (“unintended consequences”).”

DISCUSSION QUESTIONS: The Beauty of Emergent Order (excerpt)

1. Explain how the starlings are an example of spontaneous order

- a. John Papola explains “These are starlings...and when you look at them what you see is the beauty of emerging order. They’re dancing. But there’s no one to lead their dance there’s no choreographer. They’re producing art and yet there’s no artist, no auteur to put the pen to page. There is no leader here and when you look closely as you do here, it looks like chaos, anarchy, scary. Just like our lives can be scary. We see the chaos at the ground level and so it’s hard for us to pull back and see this beauty of the order that emerges in society.”
- b. The starlings are an example of spontaneous order because there is no one starling in control, they are all in control. As the speaker explains there is no leader, no control, they are all acting in their own self-interest, which best promotes the self-interest of the group. He explains that it may look like chaos, but because they are all acting in self-interest they are careful not to bump into one another.

2. Can you think of any other examples of spontaneous order?

- a. One good example of spontaneous order is people driving through traffic. With a set of rules and without a central planner, millions of people within cities are able to cooperate, spontaneously to drive themselves to a destination safely. This is an example of spontaneous order because people were able to make their own decision about where they wanted to go without a leader or central planner telling them exactly what to do.
- b. World languages are another example of how communication has evolved over time and developed into thousands of languages that are used today- all without a central “language” planner.

Lesson Recap

- Spontaneous order (emergent order) is a logical order that emerges from individual human action but not deliberate human planning or design.
- Money, language, traffic patterns, culture, and music are all powerful examples of emergent orders.
- Hayek explains that one of the benefits of spontaneous order is the new innovations and changes that come with it. These innovations would not be possible to deliberately plan.
- It's a common misconception that for order to exist in human society there needs to be a central planner or mastermind. In fact, history shows that attempts to centrally plan society results in chaos and disorder.

Additional Resources:

ARTICLE: [Spontaneous Order](#) by John Stossel (FEE.org)

“And the absence of those things will somehow lead to chaos. But what you often get when you try to enforce mandates and restrictions from a distant bureaucracy is planned chaos, as the great economist Ludwig von Mises once said. We have to rely more upon what emerges spontaneously because it represents individuals’ personal tastes and choices, not those of distant politicians.”

ARTICLE: [In Defense of Spontaneous Order](#) (The Economist)

"What it means to say that an order is spontaneous is simply to say its stable macro-level patterns—those things that make a complex system a system, an instance of order rather than disorder or randomness—do not come about through design, planning or imposition, but arise instead from the interactions of micro-level elements operating according to certain basic principles or rules."

LESSON 3 – THE RULES OF THE GAME

Description:

The rules of the game, or institutions, influence the choices people make. The laws, customs, and culture are examples of institutions that influence our behavior. Economic growth occurs when institutions promote and encourage entrepreneurial activity. Areas of the world where poverty still exists today largely lack the institutional incentives that encourage economic growth.

In this lesson, students will watch and discuss a video about institutional changes that contributed to the dramatic rise in wealth over the past 150 years. Next students will read and discuss an article about how changes in people's attitudes may be responsible for igniting economic growth. Finally, students will play a game which illustrates the *tragedy of the commons* and emphasizes the importance of property rights.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 3 –How Can Entrepreneurs Use Economics to Make Better Decisions?

6.3.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Why Does 1% of History Have 99% of the Wealth?](#) (Learn Liberty, 3:18 min)

“Throughout the history of the world, the average person on earth has been extremely poor: subsisting on the modern equivalent of \$3 per day. This was true until 1800, at which point average wages—and standards of living—began to rise dramatically. Prof. Deirdre McCloskey explains how this tremendous increase in wealth came about.”

DISCUSSION QUESTIONS: Why Does 1% of History Have 99% of the Wealth?

1. According to the video, what are some ways to promote economic growth and reduce poverty?

- a. Professor McCloskey explains why wages and living standards suddenly became so much better after the 1800’s: “Two changes in Holland and England in the 1600’s and 1700’s which was a rise in economic liberty and social honor for inventors, merchants, manufacturers. Prior to 1800, these were dishonored occupations. After 1800 they became honored and out of that became a tremendous burst of innovation that had been earlier discouraged because they weren’t free and they weren’t honored.”
- b. Encouraging social honor & good attitudes towards entrepreneurs, inventors, manufacturers and business people would encourage innovation and entrepreneurship, increasing standards of living in society.

2. Why have some countries become rich while others stayed poor?

- a. Some countries have limited economic freedom due to protectionist policies such as tariffs, subsidies, restricting competition, & trade embargoes as well as discouraging or not allowing small businesses, trade or innovation in the marketplace.
- b. These protectionist policies limit technology, innovation, cause unemployment and lower consumption and the range of goods and services available to people living in these countries.
- c. Lack of enforced property rights discourage people from being innovative or producing more since they have no incentive to keep what they earn.

6.3.B - Read the following article using the questions below to guide your discussion [20 min]:

ARTICLE: [Liberty and Dignity Explain the Modern World: An Essay Based on Bourgeois Dignity: Why Economics Can't Explain the Modern World](#) by Deirdre McCloskey and with an Introduction by Tom Palmer (deirdremccloskey.com)

“In this essay, the economic historian and social critic Deirdre McCloskey argues that the growth of modern capitalism and the world it made possible cannot be adequately explained by “material factors,” as generations of historians have sought to do. It was a change in how people thought about business, exchange, innovation, and profit that created modern capitalism and liberated women, gay people, religious dissenters, and the previously downtrodden masses whose lives were brutal, painful, and short before the invention and commercialization of modern agriculture, medicine, electricity, and the other accessories of modern capitalist life.”

DISCUSSION QUESTIONS: Liberty and Dignity Explain the Modern World

1. *According to the author, how did progress, the industrial revolution, and modern society come to be?*

- a. “Economists and historians are starting to realize that it took much, much more than theft or capital accumulation to ignite the Industrial Revolution-it took a big shift in how Westerners thought about commerce and innovation.”
- b. Instead of glorifying imperialism, people began to glorify traders and innovators.

2. *What is creative destruction and how is it connected to progress and modern society?*

- a. Creative destruction refers to the process in which the introduction of new products results in the obsolescence or failure of old ones.
- b. An example of creative destruction is the automobile industry replacing the horse and buggy industry.
- c. Without creative destruction, new ideas, products, inventions, etc. would never come to be. We would live in a stale society, never replacing products or processes thus never seeing any progress.

3. *Prior to the 17th and 18th centuries, what kinds of people were honored?*

- a. According to the article, basically only soldiers or priests held “honorable” positions in society in the 17th and 18th centuries.
- b. “People who merely bought and sold things for a living, or innovated, were scorned as sinful cheaters.”

4. *What big change occurred in the middle class in Holland and England from 1517 to 1789?*

- a. Honor was brought to innovation and trade, which gave the middle class a level of liberty and dignity not known before: “Europeans and then others came to admire entrepreneurs like Ben Franklin and Andrew Carnegie and Bill Gates.”
- b. “People signed on to a Middle-Class Deal...the middle class started to be viewed as good, and started to be allowed to do good, and to do well.”
- c. People were finally free to have ideas and were encouraged to innovate due to this giant shift in thinking.

5. *What are some of the positive outcomes of this new, “honored” middle class? Can you think of other examples not mentioned in the article?*

- a. “the steam engine, the automatic textile loom, the assembly line, the symphony orchestra, the railway, the corporation, abolitionism, the steam printing press, cheap paper, wide literacy, cheap steel, cheap plate glass, the modern university, the modern newspaper, clean water, reinforced concrete, the women's movement, the electric light, the elevator, the automobile, petroleum, vacations in Yellowstone, plastics, half a million new English-language books a year, hybrid corn, penicillin, the airplane, clean urban air, civil rights, open-heart surgery, and the computer.”

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- b. "...in the numerous places that have adopted middle class liberty and dignity, the average person makes and consumes over \$100 a day. Remember: two centuries ago it was \$3 a day, in the same prices. And that doesn't take account of the great improvement in the quality of many things, from electric lights to antibiotics to theories of economics."

6. *Did anyone, other than the middle class benefit from this new way of thinking?*

- a. Yes! The poor especially benefited because now even the poorest people could come out of poverty. Opportunities became abundant for anyone willing to put forth the effort and creativity.
- b. Historically, economic liberty has been the primary vehicle for alleviating poverty and raising standards of living around the world.
- c. "The poorest five percent of Americans are now about as well off in air-conditioning and automobiles as the richest five percent of Indians."

6.3.C – Complete this activity and be prepared to discuss your ideas with the class [15 min]

ACTIVITY: Tragedy of the Lemonade

Directions:

1. Set out a large, opaque container mostly full of lemonade (but not enough for everyone in the class to have a glass).
2. Place cups to where students can get them, and encourage them to get a drink.
3. Reassure these students by saying that everyone who wants lemonade will be able to have some. What is likely to happen is that the first students to get a drink will choose the bigger size cups and will fill them to the brim, leaving students further back in line without lemonade.
4. After the lemonade runs out, discuss with the class.

DISCUSSION QUESTIONS: Tragedy of the Lemonade

1. *Why did the lemonade run out? Why were some students left without lemonade?*
 - a. The lemonade was unowned, and as a result, there were no limits placed on how much lemonade anyone could have.
 - b. Without private ownership and market prices there was no incentive to conserve resources people may value.
2. *Why does common usage lead to exploitation?*
 - a. There was no incentive other than their thirst (which we can override) to limit the amount they took.
 - b. Some students might have even taken more lemonade than they could drink.
3. *What are some examples of common resources?*
 - a. Oceans
 - b. Rivers
 - c. City parks
 - d. Public restrooms
 - e. Federal grazing lands managed by the Bureau of Land Management (BLM)
4. *What changes could we make to help ensure that resources are available to those who value them?*
 - a. There are strategies that can be employed to ensure the long-term survival of a resource in spite of the natural tendency toward exploitation. These are incentives, privatization, communication, and education.

Lesson Recap

- The rules of the game, or institutions, influence the choices people make.
- The laws, customs, and cultural are examples of institutions that influence our behavior.
- Economic growth occurs when institutions promote and encourage entrepreneurial activity. Areas of the world where poverty still exists today largely lack the institutional incentives that encourage economic growth.
- An increase in dignity and social prestige of inventors, manufacturers, and merchants plus the increase of economic freedom (decrease of government intervention) has led to the conditions necessary for the wealth and high standards of living we enjoy today.

Additional Resources

ARTICLE: [Private Property and Opportunity Costs](#) by Dwight Lee (FEE.org)

“Private Property Motivates Cooperation”

ARTICLE: [Rent-Seeking: A Primer](#) by Sandy Ikeda (FEE.org)

“What Is the Difference between Profit-Seeking and Rent-Seeking? “The difference between profit-seeking and rent-seeking is akin to that between peaceful trade and armed robbery. Both require time, energy, and skill, but one creates wealth while the other destroys it; one encourages peaceful cooperation, the other undermines it. How does the author define “rent-seeking”? How is this different from free market renting? And “profit seeking?””

VIDEO: [The Importance of Institutions](#) (Mercatus Center, 5:00 min)

“The power of institutions illustrated. But what causes institutions? Can we change institutions?”

ARTICLE: [History of Entrepreneurship](#) by Ryan Allis (Startupguide.com)

“The original entrepreneurs were, of course, traders and merchants. The first known instance of humans trading comes from New Guinea around 17,000 BCE, where locals exchanged obsidian, a black volcanic glass used to make hunting arrowheads for other needed goods. These early entrepreneurs exchanged one set of goods for another”

LESSON 4 – INCENTIVES MATTER

Description:

Incentives influence human behavior and motivate people to act in predictable ways. Institutions such as laws, customs, and culture provide incentives that instruct and guide people’s behavior. The market also provides incentives as people interact through prices, profits, and losses. These market incentives communicate valuable information and promote social harmony.

In this lesson, students will watch and discuss a video “Incentives Matter” by Professor Angela Dills. Next students will read and discuss an article “The Power of Incentives” by Dwight Lee. Students also complete the “Candy Cartel” activity that teaches how incentives influence behavior.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, bag of individually wrapped candy, chocolate, or other small prizes.

Prerequisites:

None

6.4.A – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [Incentives Matter](#) (Learn Liberty, 2:15 min)

“According to Prof. Angela Dills, incentives are important and help economists predict individual behavior. Recognizing that incentives matter is fairly straightforward. What’s difficult is determining all the different ways a policy might affect people’s incentives and change people’s behavior. A good economist looks not only at the obvious incentives created by a particular policy but also looks for the less obvious effects.”

DISCUSSION QUESTIONS: Incentives Matter

1. Why is it important to understand incentives?

- a. The idea that incentives matter is one of the most fundamental and most important principles in all of economics. Incentives influence people’s behavior in predictable ways based on the costs and the benefits associated with the decisions people make. All other things equal, if something becomes more costly, people will choose less of it. If something becomes more beneficial, people will choose more of it.
- b. An understanding of incentives is important for understanding and predicting human behavior.

6.4.B - Read the following article using the questions below to guide your discussion [15 min]:

ARTICLE: [The Power of Incentives](#) by Dwight Lee (FEE.org)

“The market economy is the ultimate example of how a set of rules can create a setting in which private incentives motivate social cooperation. Market economies don’t create incentives directly. Indeed, in a literal sense, markets don’t create incentives at all. The most important incentives come from the subjective desires of individuals: the incentive to find love, to earn respect, to make the world a better place, to provide for their families. Markets are the rules of conduct that harmonize these various incentives by making it possible for people to communicate their desires to others. The prices, profits, and losses commonly referred to as market incentives, are created by people’s interacting with one another. These incentives, which can be communicated only through markets, contain information that promotes social cooperation.”

DISCUSSION QUESTIONS: The Power of Incentives

1. According to the author, what role do incentives play in influencing behavior?

- a. Incentives are an effective way to encourage people to behave in certain ways.
- b. The author explains “The surest way to get people to behave in desirable ways is to reward them for doing so – in other words provide them with incentives. This is so obvious that you might think it hardly deserves mention. But it does.”
- c. The two important functions of incentives are: (1) to communicate information on the best things to do and (2) to motivate people to do them.

2. *What are some of the challenges with trying to design incentives to get people to behave in desirable ways?*

- a. The author explains “Even when you acknowledge that incentives are necessary, it is not obvious how to establish the ones that motivate desirable action.”
- b. Furthermore, “...in most cases the type of behavior we desire requires subtly balancing competing objectives. In such cases, creating a direct incentive to do one thing can be too effective because it causes people to ignore other things.”

3. *“When the objective is to motivate people to cooperate, desirable results can rarely be realized by directly establishing incentives.” What are some ways or examples showing how to incentivize people indirectly?*

- a. Incentives are often established indirectly through a set of general rules that allow them to emerge from social interaction.
- b. “These incentives, which can be communicated only through markets, contain information that promotes social cooperation.”
- c. One example the author uses is traffic. Traffic is a perfect example of hundreds of people cooperating spontaneously in order for everyone to get to their destination safely and in as little time as possible. Drivers all follow the same rules and guidelines.
- d. “The market economy is the ultimate example of how a set of rules can create a setting in which private incentives motivate social cooperation.”
- e. “The most important incentives come from the subjective desires of individuals: the incentive to find love, to earn respect, to make the world a better place, to provide for their families.”
- f. “The prices, profits, and losses commonly referred to as market incentives, are created by people’s interacting with one another. These incentives, which can be communicated only through markets, contain information that promotes social cooperation.”

6.4.C - Complete the following activity about incentives [20 min]:

ACTIVITY: Candy Cartel

A cartel is an association of producers or suppliers who collude together for the purpose of restricting competition and maintaining prices at an artificially high level. In this activity, students will attempt to form a cartel and will learn about the power of incentives to influence behavior.

Required Materials:

Bag of individually wrapped candy, chocolate, or other small prizes.

Directions:

1. Tell the group that you are forming a candy cartel and will be asking them to join you. Hold up the bag of candy to show the potential gains.
2. Inform the group that each person will have the opportunity to vote whether or not to be a part of the cartel. They will choose from two options:
 - Option 1: Students can vote to collude and join the candy cartel.
 - Option 2: Students can choose to defect and not join the candy cartel.
3. Explain the rules of the cartel agreement as follows:
 - If everyone in the room votes to collude and join the cartel, then everyone will receive several pieces of candy split evenly across the room.
 - If there is one (and only one) person who defects, then that person will get a \$25 gift card, and no other students receive candy.
 - However, if there are two or more people who defect, then no one gets either the candy or the gift card.

Teacher Tip: You do not need to actually buy a gift card. For groups of 20 or more, it is highly unlikely that only 1 person will defect. For smaller groups, teachers may want to adjust the prizes in the off-chance there is only one person who defects.

4. Using a secret ballot, tell student to cast their vote by writing their name and decision on a piece of paper. Everyone must vote for one of the two below. Each person can only vote once.
 - #1 - "Join candy cartel and receive the candy"
 - #2 - "Defect for a \$25 gift card"
5. Share the results of the vote with the class. It is unlikely there will be fewer than two people who defect, so no one will get candy or a gift card.

DISCUSSION QUESTIONS

1. *Why did you vote the way you did? What motivated you? How did the incentives of the scenario play into your decision?*
 - a. People act in their own self-interest, which is why cartels are unsustainable over the long run if members are not forced to participate.
 - b. If members of the group attempt to collude to keep prices high, then others have incentive to undercut the group for personal gain.

2. *Did you trust others in your group to vote in a way that would be in your best interest?*

3. *Did you vote in a way that was in the best interest of others in your group?*

4. *Did you vote in a way that was in your best interest? Why or why not?*

5. *If you were trying to make an agreement that was in your best interest and the best interest of others in the class, and did not want others to defect, what kinds of things would help build trust?*

6. *How does this activity relate to similar to incentives you face in the real world? How is it different?*

Teacher Tip: Some students may interpret this game as indicating that everyone is worse off when people follow their own interests. This, of course, is not true. The purpose of this game is to explain how incentives influence behavior. It is not self-interest that makes people worse off, it is the incentive structure the system provides.

Lesson Recap

- “Institutions are the “rules of the game” that influence choices. Laws, customs, moral principles, superstitions, and cultural values influence people’s choices. These basic institutions controlling behavior set out and establish the incentive structure and the basic design of the economic system.”
- Incentives are “factors that motivate and influence human behavior”
- “People respond to incentives in predictable ways. Choices are influenced by incentives, the rewards that encourage and the punishments that discourage actions. When incentives change, behavior changes in predictable ways.”
- Incentives are communicated via markets which contain the information that promotes cooperation.
- The prices, profits, and losses commonly referred to as market incentives, are created by people’s interacting with one another. These incentives, which can be communicated only through markets, contain information that promotes social cooperation.”
- “The market economy is the ultimate example of how a set of rules can create a setting in which private incentives motivate social cooperation.”

Additional Resources

PODCAST: [Daniel Pink on Drive, Motivation, and Incentives](#) EconTalk (1:19:04 min)

“Daniel Pink, author of Drive, talks with EconTalk host Russ Roberts about drive, motivation, compensation, and incentives. Pink discusses the implications of using monetary rewards as compensation in business and education. Much of the conversation focuses on the research underlying the book, Drive, research from behavioral psychology that challenges traditional claims by economists on the power of monetary and other types of incentive. The last part of the conversation turns toward education and the role of incentives in motivating or demotivating students.”

ARTICLE: [Incentives Matter](#) by Russell Roberts (Library of Economics and Liberty)

“Incentives matter. The most famous example in economics is the idea of the demand curve – when something gets more expensive, people buy less of it. When it gets less expensive, people buy more of it.”

PODCAST: [Luigi Zingales on Incentives and the Potential Capture of Economists by Special Interests](#) EconTalk (1:02:06 min)

“Luigi Zingales of the University of Chicago’s Booth School of Business talks with EconTalk host Russ Roberts about Zingales’s essay, “Preventing Economists’ Capture.” Zingales argues that just as regulators become swayed by the implicit incentives of dealing with industry executives, so too with economists who study business: supporting business interests can be financially and professionally rewarding. Zingales outlines the different ways that economists benefit from supporting business interests and ways that economists might work to prevent that influence or at least be aware of it.”

LESSON 5 – ENTREPRENEURSHIP STIFLED

Description:

Excessive regulations and licensing laws restrict the liberty of average citizens to live out their dreams in meaningful ways. The more barriers that government creates, the more difficult it is for people to find work, especially for aspiring entrepreneurs. Overly burdensome regulations and licensing laws restrict value-creating entrepreneurial activity.

In this lesson, students will first watch a video, then read/discuss an article about occupational licensing. Then students will watch another video from the Institute for Justice. Finally, students will complete a Self-Study activity comparing the licensing requirements of two professions of their choice.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

6.5.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Why Can't Chuck Get His Business off the Ground?](#) (Institute for Justice, 5:04 min) “This video shows how excessive government regulation by design stifles business and entrepreneurs. The Institute for Justice (IJ), a libertarian public-interest law firm, works to free entrepreneurs from such opportunity-killing regulations.”

DISCUSSION QUESTIONS: Why Can't Chuck Get His Business off the Ground?

1. Is excessive government regulation of small business increasing or decreasing?

- a. Government is requiring more and more that entrepreneurs obtain a government-issued license before they can work.
- b. In the 1950's, 1 in 20 people needed a government license to work. Today it's 1 in 3.
- c. It can be especially difficult for entrepreneurs to start and/or grow a business due to government restrictions and regulations.

2. What could government do to increase opportunities for entrepreneurs?

- a. The government could remove opportunity-killing regulation that stifles business and entrepreneurship.
- b. Government-enforced occupational licensing requirements is a way for established businesses to keep new competition from small business and entrepreneurs from emerging.

6.5.B – Read the following article and use the questions to guide classroom discussion [20 min]:

ARTICLE: [Does Occupational Licensing Protect Consumers?](#) by John Hood (FEE.org)

DISCUSSION QUESTIONS: Does Occupational Licensing Protect Consumers?

1. About how many occupations are required by law to have an occupational license?

- a. There are over 1000 different types of jobs that now require you have an occupational license before you can work.
- b. “While many Americans know that their doctors, lawyers, and other specialized professionals are closely regulated by state boards and commissions, most don't know that barbers, plumbers, morticians, “cosmetic artists,” and a host of other occupations—1,000 at last count—are regulated, certified, or licensed by states.”

2. Is quality and affordability ensured by this process of government licensing?

- a. “Advocates of government licensing and other occupational regulations contend that unless the state has a hand in guaranteeing quality, consumers will receive shoddy and overpriced services.”
- b. “But while the promise of occupational regulation is great, research shows that it is rarely fulfilled. In the United States, at least, these regulations typically raise the price of services without significantly raising service quality—and indeed, in many instances regulation appears to lower the quality of services consumers buy.”

3. *What is one of the major side effects of restrictive licensing laws?*

- a. “One of the most well-known effects of occupational licensing and regulation is reduced competition. The theory is that by excluding some providers of a service from the market, regulations reduce competition and form a kind of “cartel” in which service providers can afford to charge high prices without fear of losing customers.”
- b. “Potential competitors are excluded by state requirements regarding years of education, college degrees, apprenticeships, or licensing examinations.”

6.5.C – Watch the following video and use the discussion questions to guide your discussion [10 min]:

VIDEO: [Should You Need the Government’s Permission to Work?](#) (Institute for Justice, 4:59 min)

“License to Work: A National Study of Burdens from Occupational Licensing is the first national study to measure how burdensome occupational licensing laws are for lower-income workers and aspiring entrepreneurs. The report documents the license requirements for 102 low- and moderate-income occupations—such as barber, massage therapist and preschool teacher—across all 50 states and the District of Columbia. It finds that occupational licensing is not only widespread, but also overly burdensome and frequently irrational.”

DISCUSSION QUESTIONS: Should You Need the Government’s Permission to Work?

1. *What are the effects of occupational licensing that requires people to “get permission” to work?*

- a. Excessive barriers, such as licensing, fees, education, and training make it costly and time-consuming for people to “get permission” to work.
- b. These barriers make it extremely difficult for people to find jobs or to start businesses which would create new jobs, especially for minorities, lower-income occupations, and those with lower levels of education.
- c. According to research in 2012, “On average, these licenses force aspiring workers to spend nine months in education or training, pass one exam and pay more than \$200 in fees. One third of the licenses take more than a year to earn. At least one exam is required for 79 of the occupations.”

2. *According to the study, which states are the worst for licensing?*

- a. Louisiana requires licensure for 71 of the lower-income occupations.
- b. Hawaii has the highest hurdles.
- c. Arizona requires the most licenses and hurdles.
- d. Other states with the highest requirements include: California, Oregon, Nevada, Arkansas, and Florida.
- e. On average, these eight states require over 1.5 years of training, an exam, and fees exceeding \$300.

3. *Does licensure regulations provide consumers with safer and better products?*

- a. No. Research has shown that by creating barriers for people to work, products and services are not any safer or better when compared to states that do not have barriers.
- b. The hardest occupation to enter (according to the “hurdles” a worker would have to jump through in this study) is Interior Designer. It takes 6 years of education and training, an exam and fees.
- c. It’s irrational that occupations such as EMTs have lesser requirements than Interior Designers with one month of training and two exams, on average.
- d. Cosmetologists spend more than ten times that of EMTs when it comes to time required for training and experience, even though EMTs hold people’s lives in their hands-literally.

4. *Are occupational licensing “hurdles” necessary to keep consumers safe?*

- a. No. When cities, counties, states, or other government agencies create barriers for workers, it causes consumer costs to go up and opportunities for job-seekers and entrepreneurs to go down.
- b. Some licenses don’t make sense at all, such as shampooers, interior designers, or funeral attendants.
- c. Inconsistencies between states show that many licenses and requirements should be done away with completely. Other occupations, when comparing state requirements, show that training, experience, and fees are wildly different for the same occupation.

5. *What is the real reason for such high regulations and barriers to obtain licenses to work?*

- a. Established industry participants often lobby for licensing requirements making it difficult for people to get permission to work, thus decreasing competition.
- b. Those who already have a license don’t have to worry as much that others will compete with their products and services, thus allowing for prices to remain high.
- c. “If state law makers want to help people find jobs they should start by clearing away licensing barriers that do little more than protecting some people from competition, by keeping others out of work.”

Teacher Tip: Teachers should assign Self-Study research assignment 6.5.D at the end of class. Teachers may want to collect student essays and/or allow students to share their findings in the first few minutes of the following class.

6.5.D – Self-Study: Research and be prepared to present what your findings in class [30 min]:

ACTIVITY: Burdens of Licensure

Using the [Occupations Ranked by Average Burden](#) study from the Institute for Justice, select and compare two or more occupations and their associated requirements for licensing, training, fees, exams, etc. In your opinion, are these occupational requirements rational? Can these requirements all be justified? Why or why not?

[The National Study of Burdens from Occupational Licensing](#) is the first national study to measure how burdensome occupational licensing laws are for lower-income workers and aspiring entrepreneurs.

The report documents the license requirements for 102 low- and moderate-income occupations—such as barber, massage therapist and preschool teacher—across all 50 states and the District of Columbia. It finds that occupational licensing is not only widespread, but also overly burdensome and frequently irrational.

On average, these licenses force aspiring workers to spend nine months in education or training, pass one exam and pay more than \$200 in fees. One third of the licenses take more than a year to earn. At least one exam is required for 79 of the occupations.

Barriers like these make it harder for people to find jobs and build new businesses that create jobs, particularly minorities, those of lesser means and those with less education.

License to Work recommends reducing or removing needless licensing barriers. The report's rankings of states and occupations by severity of licensure burdens make it easy to compare laws and identify those most in need of reform.

The need to license any number of the occupations in this sample defies common sense. A short list would include interior designers, shampooers, florists, upholsterers, home entertainment installers, funeral attendants, auctioneers and interpreters for the deaf.

Lesson Recap

- Many government-imposed regulations and licensing laws restrict the liberty of average citizens to live out their dreams in meaningful ways.
- Americans are having their freedom to work restricted more and more as government regulation is stifling people's ability to work and start businesses.
- A National Study of Burdens from Occupational Licensing is the first national study to measure how burdensome occupational licensing laws are for lower-income workers and aspiring entrepreneurs.
- When cities, counties, states, or other government agencies create barriers for workers, it causes consumer costs to go up and opportunities for job-seekers and entrepreneurs to go down.
- Occupational licensing is often overly burdensome and frequently irrational. It benefits established benefits at the expense of new entrants to the market.
- Licensing barriers make it extremely difficult for people to find jobs or to start businesses which would create new jobs, especially for minorities, lower-income occupations, and those with lower levels of education.
- "If state law makers want to help people find jobs they should start by clearing away licensing barriers that do little more than protecting some people from competition, by keeping others out of work."

Additional Resources

VIDEO: [Free Trade vs. Protectionism](#) (Learn Liberty, 3:12 min)

"According to Prof. Don Boudreaux, free trade is nothing more than a system of trade that treats foreign goods and services no differently than domestic goods and services. Protectionism, on the other hand, is a system of trade that discriminates against foreign goods and services in an attempt to favor domestic goods and services. In theory, free trade outperforms protectionism by bringing lower cost goods and services to consumers. In practice, the benefits of free trade can be seen in countries like America and Hong Kong. Both countries have a relatively high degree of free trade, and, as a consequence, have experienced an explosion of wealth."

VIDEO: [What America's Decline in Economic Freedom Means for Entrepreneurship and Prosperity](#) (Fraser Institute, 2:25 min)

"Today America's entrepreneurs are stifled by cascading regulations and other mandates from government. Rather than focusing on satisfying their customers, entrepreneurs increasingly have to satisfy government bureaucrats."

ARTICLE: [Entrepreneurs Under Attack](#) by John Stossel (FEE.org)

“Every day, federal, state, and local governments stifle small businesses to privilege well-connected incumbent companies. It’s a system of protectionism for influential insiders who don’t want competition. Every locality has its share of business moguls who are cozy with politicians. Together, they use the power of government to keep competition down and prices high. The Institute for Justice (IJ), a libertarian public-interest law firm, works to free entrepreneurs from such opportunity-killing regulations.”

VIDEO: [Free to Design: Florida Entrepreneurs Take On the Interior Design Cartel](#) (Institute for Justice, 3:27 min)

“Florida is ground zero in the nationwide battle to cartelize the interior design industry. A small group of well-funded industry insiders led by the American Society of Interior Designers has been relentless in its pursuit of ever more restrictive laws. Studies have shown that interior design regulations result in higher prices, less variety, and fewer employment opportunities, especially for minorities and older mid-career switchers.”

VIDEO: [The Most Dangerous Monopoly: When Caution Kills](#) (Learn Liberty, 4:40 min)

“...when the government holds the monopoly on safety standards, products are likely to be over-tested, delaying their entry into the market and making them more expensive. Sometimes the costs of such delays cannot be quantified; lives can be lost while life-saving medicines are held up in safety-testing processes.”

MODULE 7 – WHAT ARE THE LINKS BETWEEN ENTREPRENEURSHIP, PERSONAL CHARACTER, AND CIVIL SOCIETY?

“Character comes first and makes liberty possible, and one of the highest and most noble callings of a responsible adults in a free society is to be an honest entrepreneur who creates value, employs people, and solves problems.”

–LAWRENCE W. REED

Overview:

Civil society refers to all the non-government institutions and associations that make up our communities. Civil society includes things like the family, religious groups, private enterprise, and charitable organizations. In this series of lessons, students will explore the relationship between successful entrepreneurship, personal character, and civil society. Rewards for an entrepreneur’s ethical behavior and good business ethics can be seen in profits and innovation, but it can also be noticed in individual strength of character. Entrepreneurs with strong personal character serve as role models for others in society to follow.

Concepts and Terms:

- Business Ethics
- Character
- Civil Society
- Entrepreneurship
- Freedom
- Honesty
- Integrity
- Property Rights
- Values
- Virtue
- Subsidy
- Specialization

Objectives:

Students will be able to...

- Define character and understand the connection between personal character and civil society
- Understand and articulate the meaning of integrity and “doing the right thing”
- Understand that human beings respond to incentives in predictable ways
- Recognize the importance of freedom, individual rights, and private property in cultivating civil society
- Describe how free market competition encourages people to practice peaceful interaction and increases social harmony and cooperation

Related Standards:

STANDARD 4: INCENTIVES – People usually respond predictably to positive and negative incentives.

STANDARD 14: ENTREPRENEURSHIP – Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

STANDARD 15: ECONOMIC GROWTH – Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living.



LESSON 1 – VIRTUE AND ENTREPRENEURSHIP

Description:

Strong personal character is essential for entrepreneurial success. Moral virtues such as ambition, integrity, courage, productiveness, and rationality translate into success in the business world. Furthermore, a free society is impossible without strong character. Entrepreneurship both demands and reinforces strong personal character.

In this lesson, students will watch and discuss a video “Entrepreneurship and Virtue Ethics” by the Entrepreneurial Ethics Series. Next students will complete an activity that reinforces the importance of values, personal character, and economic freedom. Then students will read and discuss an article “Character, Liberty, and Economics” by Lawrence W. Reed.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

7.1.A – Watch the following video and be prepared to answer the questions that follow [25 min]:

VIDEO: [Entrepreneurship and Virtue Ethics](#) (Entrepreneurial Ethics Series, 14:15 min)

“A brief video explaining the link between Entrepreneurial Success Traits and Moral Virtues.”

DISCUSSION QUESTIONS: Entrepreneurship and Virtue Ethics

1. What do the three biggest names in the entrepreneurial world agree is the most important thing to judge whether someone will have entrepreneurial success?

- a. All three agree that a person’s **character** is key to telling whether they will have entrepreneurial success.
- b. J.P Morgan was asked whether “Money was always loaned out based on one’s assets?” to which he responded, “No sir. The first thing is character. Because a man I do not trust could not get money from me on all the bonds in Christendom.”
- c. Georges Doriot, the ‘Father of venture capitalism’ – states “When someone comes in with an idea that’s never been tried, the only way you can judge is by the kind of man you’re dealing with.”
- d. Kevin O’Connor, when asked what he looks for when people are seeking venture capital from him, he said “I look at three big things: Have they found a big problem in a big market? Have they solved the problem in what I believe to be the most effective way? And are they able to pull it off – are they smart, are they aggressive, are they honest and are they hardworking?”

2. What is the link between entrepreneurial success traits and moral virtues? What are these traits and the relating moral virtues?

- a. The video states there is a wide range of entrepreneurial success traits that lead to moral virtues and having these traits will lead to entrepreneurial success. These traits and moral virtues include:
 - Knowledge and creativity – leads to rationality by way of reason and accurate judgment
 - Ambition – drives pride and leads to personal achievement
 - Initiative – based on integrity
 - Guts – leads to courage (by awareness of risks & failure)
 - Perseverance – leads to independence (trust your own judgment)
 - Trial and error – leads to objectivity (understand objective reality)
 - Productivity – leads to productiveness (create value)
 - Win-win trade – leads to justice (use independent judgment & trade value for value)
 - Leadership – leads to leadership-ness
- b. When a person has all of these traits this leads to enjoying and experiencing success which leads to self-esteem and flourishing (both psychological and financial happiness & fulfillment)

7.1.B – Complete the following activity and be prepared to share your results [10 min]:

ACTIVITY: My Personal Values

What are the most important character traits for people to have in the society you would like to live in? Choose the 3 most important character traits you believe are most valuable to you personally that you would like to see the people around you to have.

Examples:

- Honesty
- Self-discipline
- Courage
- Strength
- Caring
- Self-reliance
- Optimism
- Patience
- Motivation
- Intelligence
- Responsibility for their own actions
- Think long-term, not just present short-term

What are the 3 most important character traits you would want people around you to have? What makes these character traits important?

1. _____
2. _____
3. _____

DISCUSSION QUESTIONS: My Personal Values

Teacher Tip: Ask students for the first words that come to mind when asked, “What are the most important character traits for people to have?” Write these examples on the board, and ask a few students to share why they chose character traits they did. At the end of the activity, remind students that freedom serves as the foundation to a prosperous and harmonious society.

1. *Different people hold different values in high esteem. How does freedom in society allow people with different values to exist together peacefully?*

2. *Which character traits do you think are the essential foundations for a prosperous society? In other words, the absence of what character traits by people in society would make life very difficult?*

- a. Without freedom, individuals are not free to use their minds the best way they desire, and they are unable to develop their fullest human potential.
- b. Individual growth and societal progress is therefore not possible without free will.

3. *Are there more traits that you think are important that are not listed above? Please support your answers.*

Teacher Tip: Write any additional traits that students may think of on the board for additional class discussion and consideration.

7.1.C – Students will read the following article and answer the questions [10 min]:

ARTICLE: [Character, Liberty, and Economics](#) by Lawrence W. Reed (FEE.org)

“Bad character leads to bad economics, which is bad for liberty. Ultimately, whether we live free and in harmony with the laws of economics or stumble in the dark thrall of serfdom is a character issue.”

DISCUSSION QUESTIONS: Character, Liberty, and Economics

1. What, according to the author, are some of the reasons that people vote for short-term gains even when they understand economics?

- a. Lawrence W. Reed explains “Even among the most ardent supporters of free market causes are people who “leak” when it comes to their own bottom lines. A recent example was the corn farmer who berated me for opposing ethanol subsidies. Does he not understand basic economics? I’ve known him for years and I believe he does. But that understanding melted away with the corrupting lure of a handout.”
- b. As shown through the example the author provides, his friend understands the economics behind a subsidy – in the long run everyone will lose from the increase in taxes needed to pay for the cost of the subsidy. There are also increased administrative costs to pay for the bureaucracy that administers the policy.
- c. However the author believes that people without strong character can easily be persuaded to vote for short-term gains that come at the expense of others, if those gains benefit them.

2. What elements define strong character?

- a. Lawrence W. Reed explains “Chief among the elements that define strong character are these: honesty, humility, responsibility, self-discipline, self-reliance, optimism, a long term focus, and a lust for learning. A free society is impossible without them.”
- b. The author believes that with bad character traits comes bad economic decisions which harms everyone’s liberty.

Lesson Recap

- Strong personal character is the key to having long-term entrepreneurial success.
- There is a direct correlation between strong personal character, self-esteem, and being prosperous.
- Virtuous entrepreneurs set examples as role models for future generations to follow.
- Achieving and maintaining a free society is impossible without men and women of strong character.

Additional Resources

ARTICLE: [Living the 7 Entrepreneurial Virtues](#) by Kevin Daum (inc.com)

We all strive to be our best. Here are seven traits to make your entrepreneurial journey heavenly.

BOOK: [Are We Good Enough for Liberty?](#) by Lawrence W. Reed (FEE.org)

“This small book conveys a very big message: character makes all the difference in the world. You are personally in charge of your own character and are in a position to have a considerable influence on the character of others by your example. If you have a conscience, this should matter a great deal to you. If you value liberty, you must understand that character is an indispensable ingredient—a necessary pre-condition—for a free society.”

LESSON 2 – CONNECTED BY COMMERCE

Description:

Each day we benefit from countless acts of cooperation. Free markets encourage cooperation, which leads to social progress and prosperity in a civil society. Competition, specialization and the division of labor are important elements necessary for free markets to prosper. Through trade, we are increasingly becoming connected to one another.

In this lesson students will watch and discuss a video “I, Pencil Extended Commentary: Connectivity” by the Competitive Enterprise Institute. Next students will participate in a class discussion thinking about cooperation and specialization. Lastly, students will read and discuss an article “Markets and Freedom” by Dwight Lee.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Module 6 – What Institutional Factors Encourage Entrepreneurship?



7.2.A – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [I, Pencil Extended Commentary: Connectivity](#) (CEI, 3:26 min)

“We are connected to people in distant places in ways that are unimaginable. When you buy a pencil, you are helping people do things they value through markets. This video contains commentary from:

- Art Carden, Assistant Professor of Economics at Samford University;
- Deirdre McCloskey, Distinguished Professor of Economics, History, English and Communications at the University of Illinois at Chicago
- Lawrence W. Reed, President of the Foundation for Economic Education
- Walter E. Williams, John M. Olin Distinguished Professor of Economics at George Mason University”

DISCUSSION QUESTIONS: I, Pencil Extended Commentary: Connectivity

1. In what ways are we connected to other people through trade? What is the connection to others (including others in the past and in the future)?

- a. The cooperation that emerges in the market has created systems where millions of people are all working to the mutual benefit of each other. The story of *I, Pencil* uses the story of an ordinary object to illustrate the ways in which we are all connected.
- b. “When you use a pencil, you are not only using the knowledge and the wisdom of everyone in the supply chain today, you are also using the knowledge and the wisdom of everybody who helped contribute to the knowledge that is embodied in the pencil that we have.” – Art Carden
- c. When you produce, create, and trade, you are leaving a legacy.

2. As discussed in the video, what happens when people act independently to produce everything themselves?

- a. Prof. Walter E. Williams explains, “If you look at the things that we enjoy each day – our eye glasses, our cars, our food, we depend on others. We don’t produce all these items ourselves. Now, if you want to see independent people, you go to Borneo. Those people in Borneo, they produce their own houses, their own food, their own clothing - but they’re much poorer as a result.”
- b. It is much more time consuming and costly for a society to have people that independently produce everything they want to consume. Through specialization and trade, people produce what they’re best at producing and trade with others. Everyone is relatively better off because they can spend less time working, and consume a wider range of goods and services that they could not previously consume.

3. *What are some of the benefits beyond material prosperity that the author discusses in the article?*

- a. The author explains, “The valued result is buyers and sellers responding to each other, becoming more attuned to what people around them want, and helping to create a community in which their role is an important one. Thus, traders make a living while at the same time becoming worthy of their own esteem. Successful traders become esteemed and worthy of esteem because they went to market with a vision of how to make people better off. At the end of the day, they go home not only materially enriched but vindicated.”
- b. The author believes that the division of labor and trade enables people to have a greater range of goods and services & increases the self-esteem of entrepreneurs.

4. *Whose cooperation do you rely on for the goods and services you enjoy day to day? What people had to cooperate just for you to get your food and clothes today? What would happen without cooperation made possible by the market?*

- a. Everyone relies on an incredibly complex network of cooperation. Every time you consume an item it relies on the cooperation of all the people who are involved in producing materials for that particular item.
- b. Without this cooperation & trade, everyone would have to produce by themselves every good they wish to consume. This would be incredibly time consuming for each individual. Each person would not be able to consume a wide range or large amount of goods and services.

7.2.B – Complete the following activity and share your results with the group [15 min]:

ACTIVITY: Voluntary Cooperation

We depend on an incredibly complex network of cooperation. Each day we benefit from countless acts of cooperation. Cooperation is an act of working together for mutual gain and has many advantages. Trade is a type of cooperation where both parties expect to gain. This allows people to specialize and rely on the cooperation of exchange with other people. It frees people to grow and improve their skills, increase knowledge, and utilize the luxury of free time to engage in other meaningful activities. With more trade, people become wealthier and they also become more and more interdependent on the cooperation of others. The market is an interpersonal, complex, network of cooperation and mutual gain. Not only can we accomplish more freely trading with one another, we also make available time to build our individual talents and pursue our dreams of a meaningful life.

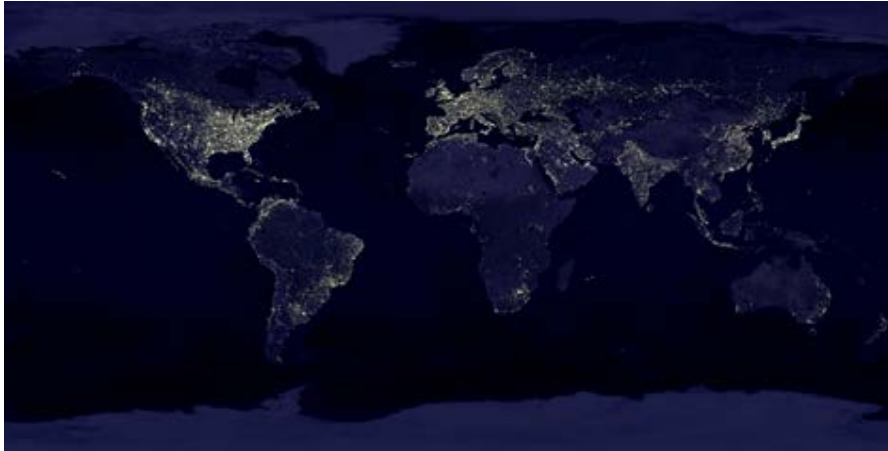
Identify and list the people whose cooperation you rely upon for food, clothing, shelter, entertainment, and education. Be prepared to share with the class.

Teacher Tip: It should be stressed that there is voluntary cooperation at each step.

Goods/Services:	Voluntary Cooperation:
Food	
Clothing	
Shelter	
Entertainment	
Education	
Other	

7.2.C – Read the following article and answer the questions below [15 min]:

ARTICLE: [Markets and Freedom](#) by Dwight Lee (FEE.org) – “The social cooperation that emerges in free markets permits the specialization on which prosperity depends. We would be much poorer without the specialization that is possible only when large numbers of people can coordinate production and consumption through market exchange. But even more important than the material wealth we realize from the marketplace is the benefit of freedom.”



(Left): Satellite image of the world at night. The bright lights represent areas of prosperity and freedom with markets that generally encourage free trade.

DISCUSSION QUESTIONS: Markets and Freedom

1. *What is the importance of economic freedom in a complex economy where people are connected through trade?*
 - a. People can accurately communicate costs to one another, enter and exit the market as they wish and purchase goods and services at mutually agreeable prices. Dwight Lee explains, “Destroy freedom and you destroy the information flows that are the essence of market economies.”
 - b. Freedom promotes wealth in the market.

2. *What needs to be in place for markets to work efficiently?*
 - a. Markets need freedom in order to allow consumers and producers to interact with one another and communicate information through prices.
 - b. Markets also need laws to protect private property, without which people would not have an incentive to create something of value for the market or pay for the goods and services they consume.

3. *What is the relationship between freedom and markets?*
 - a. Dwight Lee explains, “Markets require freedom and freedom requires markets” – they are both dependent on one another to work. Markets need freedom in order for consumers and producers to effectively coordinate actions and communicate with one another.
 - b. Freedom needs markets because freedom cannot work in society without having some way of making people accountable of their actions.

Teacher Tip: Assign the following article as Self-Study if class time runs out.

7.2.D - Self- Study: Read the article and answer the questions that follow [15 min]:

ARTICLE: [Competition and Cooperation](#) by David Boaz (FEE.org)

“The market is an essential element of civil society. The market arises from two facts: that human beings can accomplish more in cooperation with others than individually and that we can recognize this. If we were a species for whom cooperation was not more productive than isolated work, or if we were unable to discern the benefits of cooperation, then we would remain isolated and atomistic. But worse than that, as Ludwig von Mises explained, “Each man would have been forced to view all other men as his enemies; his craving for the satisfaction of his own appetites would have brought him into an implacable conflict with all his neighbors.” Without the possibility of mutual benefit from cooperation and the division of labor, neither feelings of sympathy and friendship nor the market order itself could arise. Throughout the market system individuals and firms compete to cooperate better.”

DISCUSSION QUESTIONS: Competition and Cooperation

1. How does the market encourage cooperation?

- a. David Boaz explains “The market is an essential element of civil society. The market arises from two facts: that human beings can accomplish more in cooperation with others than individually and that we can recognize this. If we were a species for whom cooperation was not more productive than isolated work, or if we were able to discern the benefits of cooperation, then we would remain isolated and atomistic.”
- b. The market encourages businesses to compete to cooperate with consumers. The market also encourages people to coordinate with one another – as this leads to higher achievement, more free time and the ability to consume a wider variety of goods and services.

2. What are the benefits of competition in the market?

- a. David Boaz explains “Defenders of the market process often stress the benefits of competition. The competitive process allows for constant testing, experimenting, and adapting in response to changing situations. It keeps businesses constantly on their toes to serve customers.”
- b. Competition benefits consumers because companies are forced to constantly improve to offer consumers the lowest prices, best range of goods and services, good customer service and so on.
- c. It also promotes productivity and encourages resources to be distributed to their most valued uses.

Lesson Recap

- Everyone relies on an incredibly complex network of cooperation. Every time you consume an item it relies on the cooperation of all the people who are involved in producing materials for that particular item.
- “Markets require freedom and freedom requires markets” – they are both dependent on one another to work.
- “When you use a pencil, you are not only using the knowledge and the wisdom of everyone in the supply chain today, you are also using the knowledge and the wisdom of everybody who helped contribute to the knowledge that is embodied in the pencil that we have.” – Art Carden
- When you produce, create, and trade, you are leaving a legacy.
- Differences in economic growth are explained by differences in institutional arrangements, incentives to invest and the openness of markets to trade.

Additional Resources

ARTICLE: [The Case for Voluntary Private Cooperation](#) by Michael Munger (FEE.org)

“That "feeling of solidarity" is society—voluntary, uncoerced, natural human society. We don't need nations, and we don't need flags and armies to make us prosperous. All we need is voluntary private cooperation, and the feeling of solidarity and prosperous interdependence that comes from human creativity unleashed.”

ARTICLE: [Social Cooperation](#) by Sheldon Richman (FEE.org)

“It is through cooperation and the division of labor that we all can live better lives.”

VIDEO: [Matt Ridley ZURICH.MINDS \(18:20 min\)](#)

“Matt Ridley discusses why he is a rational optimist at Zurich Minds.”

Description:

The market is simply the sum total of voluntary exchanges between individuals in the economy. The process of voluntary exchange both reflects and encourages social cooperation. Economists like [Ludwig von Mises](#) recognize the market as the cornerstone of civil society. These mutually beneficial associations between people result largely from specialization, division of labor, and trade. As a result, it is no wonder that markets promote peace, cooperation, economic prosperity, strong character, and social progress. Free markets are a necessary ingredient for achieving a humane and just society.

In this lesson, students will watch a video that explains the importance of freedom of choice. Free markets are compatible with enabling people to develop their humanity and work towards achieving what they believe is important as they pursue their own plans. Next students will read an article entitled “Markets and Morality” by Peter J. Hill. Finally, students will read a story about a man from humble beginnings who achieved life-changing success as an entrepreneur serving people in the market.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 7.1 – Virtue and Entrepreneurship

7.3.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Free Will and Human Dignity: A Love Story](#) (Learn Liberty, 1:49min)

“What is the value of free will and the ability to make your own choices? Prof. James Otteson recalls a parable his teacher taught him in high school. If you had the ability to make a woman fall in love with you, would you like it? Would you prefer to force someone to love you or to have someone offer to give their love to you freely? Love freely given is so much more valuable. This story illustrates an important moral insight: Respecting people means allowing them to make their own choices, even if you believe the choices they will make are poor. Without the ability to choose for ourselves, we lose a bit of what makes us human. Do you find it frustrating when you are not allowed to make your own decisions? What would you do differently if people or government were not preventing your actions? Do you think you're better or worse when your choices are limited or taken from you?”

DISCUSSION QUESTIONS: Free Will and Human Dignity: A Love Story

1. *What does Professor Otteson say it means to respect a person as a moral agent?*
 - a. It means to give the person the respect to choose for themselves.
 - b. Moreover, it means giving the person the opportunity to choose even though sometimes they may make bad choices.

2. *How are respect for human dignity and allowing people freedom of choice related to one another?*
 - a. Freedom of choice is a key part of what makes us human. Seeking to impose your will on others is demeaning.
 - b. It takes away part of what it means to be human when you command obedience and do not allow people to make their own choices.

3. *Do you think people should be allowed to exercise their freedom of choice? Are there constraints that should be placed on freedom of choice? (What if they might harm others? What if they might make a choice they will regret later?)*

4. *Are there times when commanding obedience is acceptable? (Think about relationships between parents/children, teachers/students.)*

5. *How are free markets and freedom of choice related?*
 - a. The free market is simply the sum of voluntary exchanges between individuals in the economy. It is the embodiment of the principle that people should treat one another with dignity and respect as moral agents.
 - b. Free markets enable people to exercise their freedom of choice and provides incentives for them to choose in ways that not only benefit themselves, but also benefit others in society.

7.3.B – Read the following article and answer the questions below [20 min]:

ARTICLE: [Markets and Morality](#) by Peter J. Hill (FEE.org)

“A system is more moral if it holds individuals accountable for their actions and encourages them to help others than if it allows them to impose costs on others without their consent. This is not to argue that a market system can serve as a replacement for a society in which people act on the basis of moral conscience. Individual morality certainly will enhance capitalism, as it would any system. Honesty, compassion, and empathy make our world more livable whatever the institutional arrangement. Capitalism is not inimical to these qualities. When alternative economic systems are evaluated within a moral framework, sound reasons emerge for favoring private property rights and markets. Markets and morality can serve as useful complements in maintaining a just society.”

DISCUSSION QUESTIONS: Markets and Morality

1. *What is the author referring to when he discusses the concept of a “free market” or “capitalist society?”*

- a. The author explains, “What we call capitalism or a free-market society is a society based upon private property rights. Individuals may own, buy, and sell property (including their own labor) if they do not do so fraudulently, and they are free to do what they want with their property as long as they do not harm others. Individuals may decide to exchange property with others, thereby creating a market. This market process is not mandated by anybody and requires only a well-defined and enforced system of private property rights in order to exist.”
- b. The author explains that a free market or capitalist society is made up of individual property rights and the freedom to make choices about what to do with this property. The society does not need any central planning system; only an enforced system of private property rights.

2. *What are some of the moral strengths of a “capitalist” or “free market” society?*

- a. Peter J. Hill explains, “Inherent in capitalism is the ability to: provide freedom of choice, encourage cooperation, provide accountability, create wealth for a large number of people, and limit the exercise of excessive power.”
- b. People are given the **freedom of choice** – they can live and organize their own lives in any way they wish. The author illustrates with the example of the ‘Hutterites’ who chose to share all common resources & not sell their labor. They are free to do this within a capital society.
- c. The capital market **promotes cooperation**. People have the incentive to cooperate with others in order to save time and maximize the range and quantity of goods and services they can consume.
- d. **Tolerance**: People can choose to make different decisions about their lifestyles and still live and cooperate with others. The author uses the example of the vegetarian and meat-eaters – they are able to choose their own diets but still shop at the same places.
- e. A capital society promotes **social harmony** because it holds people accountable for their actions if they damage another person’s private property.
- f. Exchanges between people are “positive sum” – With well-defined laws in a capitalist society both parties will always **benefit from exchanges** so people are constantly having more value and becoming better off.
- g. **No one central body or government has excessive power** over other people’s freedom.

7.3.C – Read the following article and answer the questions below [15 min]

ARTICLE: [From the Sixth Grade to a Harvard Degree](#) by Lawrence W. Reed (FEE.org)

“Giving money to worthy causes is a noble thing, but having the wisdom and the drive to do what it takes to earn it in the first place is what’s really great... In 77 years of life, Nub [Norval Morey] went further than most of us ever will if we live to be 100. He was a pioneering inventor, an entrepreneurial genius, a job creator, a benefactor of education.”

DISCUSSION QUESTIONS: From the Sixth Grade to a Harvard Degree

1. *According to the author, how can you measure the greatness of a person?*

- a. “Greatness...something that springs from character, the critical, self-determined stuff that defines a person. A great man or woman is one who does great things from the heart and doesn’t care if it makes the papers.
- b. Giving money to worthy causes is a noble thing, but having the wisdom and the drive to do what it takes to earn it in the first place is what’s really great.”

2. *According to the author, “Norval Morey not only knew what it takes to make a successful company tick; he knew what it takes to make a successful country tick as well.” What kinds of ideals did Norval promote?*

- a. He spoke out in favor of individual liberty and free enterprise.
- b. Nub was a down-to-earth, no-pretense guy whose least concern was whether he impressed you. I never once heard him say anything boastful.

3. *How did a man with a 6th grade education go on to be “a pioneering inventor, an entrepreneurial genius, a job creator, a benefactor of education”?*

- a. Norval achieved success through hard work and dedication. He developed his skills.
- b. He was also free to pursue the life he thought best for himself.
- c. Norval “...spent the first half of the 1930s working the family farm, cutting and hauling wood, and taking on every odd job he could find. He then moved to Idaho to work as a logger near Lewiston. Returning to Michigan at the start of World War II, he labored in defense plants in Detroit until the army drafted him in 1942. He faced danger head-on as a combat squad leader in northern Italy. Back in his home state after the war, he became a sawmill operator. Wood was his passion and his career for the next four decades.”

Lesson Recap

- Markets promote peace, cooperation, economic prosperity, strong character, and social progress. Free markets are a necessary ingredient for achieving a humane and just society.
- Freedom of choice is a key part of what gives us a truly human experience.
- “Inherent in capitalism is the ability to: provide freedom of choice, encourage cooperation, provide accountability, create wealth for large numbers of people, and limit the exercise of excessive power.” – Peter J. Hill
- Markets promote and encourage cooperation and social harmony. Exchange is “positive sum,” meaning both parties gain from the transaction.
- Markets and morality serve as useful complements in maintaining a just society.

Additional Resources

ARTICLE: [The Moral Element in Free Enterprise](#) by F.A. Hayek (FEE.org)

“It is, on the one hand, an old discovery that morals and moral values will grow only in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom—and proportional to the amount of freedom they have possessed. It is also an old insight that a free society will work well only where free action is guided by strong moral beliefs, and, therefore, that we shall enjoy all the benefits of freedom only where freedom is already well established. To this I want to add that freedom, if it is to work well, requires not only strong moral standards but moral standards of a particular kind, and that it is possible in a free society for moral standards to grow up which, if they become general, will destroy freedom and with it the basis of all moral values.”

ARTICLE: [Is the Free Market Ethical?](#) by Fred Foldvary (FEE.org)

“The case for the free market exists on firm moral ground: the free market, free from coercion, is the only ethical market.”

ARTICLE: [The Pursuit of Profit is Pro-Social](#) by Matthew McCaffrey (FEE.org)

“Thinking of social enterprise as distinct from conventional business helps obscure the vital truth that profit seeking is not only compatible with increases in human welfare, it is probably the most powerful force for producing them ever devised. In fact, that’s the beauty of free-market enterprise: it’s social whether it pursues an explicit social agenda or not”

ARTICLE: [Honesty and Trust](#) by Walter E. Williams (FEE.org)

“Both are crucial for efficient human interaction and a smoothly working economy”

ARTICLE: [Lot Lizards, Sexism and Markets](#) by Jeffrey Tucker (FEE.org)

“The moral of the story: if you have a problem with the way the market is treating you, don’t go to government. It’s too blunt an instrument. There might be an app for that. Or you might be looking at an opportunity to create and sell your own app. Markets contain within themselves the basis for solving their own problems, and always more elegantly than the rough hand of the law. You don’t need to “bring a dude with you” after all.”

ARTICLE: [There’s No Such Thing as an Unregulated Market](#) by Howard Baetjer Jr (FEE.org)

“There is no such thing as an unregulated free market. If a market is free, it is closely regulated by the free choices of market participants. The actions of each constrain and influence the actions of others in ways that make actions regular — more or less predictable, falling within understandable bounds. Government regulation is not the only kind of regulation; market forces also regulate. Recognizing this, communicating it to others, and getting the awareness into public discourse are key steps toward greater economic liberty.”

ARTICLE: [Why Free Markets Are Difficult to Defend](#) by D. Eric Schansberg (FEE.org)

“In sum, there are at least two plausible explanations for the paradox of why people support free markets in general and government activism in specific areas. The visible benefits of government activism are easier to explain than the more abundant but more diffuse benefits of free markets. And due to the different incentives that winners and losers face for any given proposal, the benefits of government programs are more forcefully argued since their proponents will (out of ignorance or deceit) discuss the program only in its most favorable light. Government programs may be bad economics, but why they are bad economics may be difficult to explain. That is why an effective defense of the free market must be based on moral principle.”

ARTICLE: [Equality, Markets, and Morality](#) by Burton Folsom (FEE.org)

“Free markets may yield odd results and certainly unequal outcomes, but the greater opportunities and prosperity have made the tradeoff worthwhile for American society.”

ARTICLES/VIDEOS: [Does the free market corrode moral character?](#) (templeton.org)

This is the fourth in a series of conversations among leading scientists, scholars, and public figures about the “Big Questions” from the John Templeton Foundation.

VIDEO: [Subjective vs Objective Value: The Economist and the Philosopher](#) (Learn Liberty, 2:02 min)

“Some people like rock music, and others like country. Some people prefer chocolate; others prefer strawberry. Economics calls value subjective to reflect these different tastes and preferences. Philosophy uses the term “value” objectively, to refer to things such as rights. Prof. Aeon J. Skoble shows how both conceptions of value are legitimate and, in fact, complement each other.”

LESSON 4 – INDIVIDUALISM & CIVIL SOCIETY

Description:

Humans are social creatures who need community to thrive. One reason we get so much benefit from living in society is the great diversity of skills, talents, and interests between individuals in society. If we care about preserving community, we also need to think about the unique individuals who make it up. Each person is an individual deserving of respect and dignity. The market encourages individuals to interact peaceably and build mutual trust.

In this lesson, students will watch a video about the idea of equality. Then students read and discuss an article “The Individual in Society” by Ludwig von Mises. Next students will watch and discuss the video Individualism vs. Collectivism with a short classroom activity. Lastly, students will read an article for Self Study entitled “Competition and Cooperation” by David Boaz.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 7.1 – Virtue and Entrepreneurship

Lesson 7.2 – Connected by Commerce

Lesson 7.3 - Markets and Morality



7.4.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Equality and Respect: How I’m Equal to Hugh Jackman](#) (Learn Liberty, 3:00 min)

“According to the Declaration of Independence, we’re all created equal. But Professor Aeon Skoble is not as rich as Bill Gates, as tough as Vin Diesel, or as sexy as Hugh Jackman. To Professor Skoble, the Declaration intends for us all to be treated equal before the law. Put another way, we should all have equal freedom to choose our own respective paths to happiness as long as we do not infringe on the freedoms of others.

Treating people as equals means that we should show equal respect for the choices they make. That means that, although we may disagree with others, we should respect their preferences for jobs, tv shows, music, etc... The legal system should show equal respect for persons by respecting their rights equally, not by interfering with the outcomes of people's choices. If we try to produce equality in some other fashion, we will necessarily violate people's freedom to choose.”

DISCUSSION QUESTIONS: Equality and Respect: How I’m Equal to Hugh Jackman

1. In what ways should we treat one another as equals?

- a. Equality refers to having equal freedom and equality in our liberty.
- b. We should all respect human rights equally which is the definition of true equality (an equal protection of our rights, including property rights).

2. What is the caveat when referring to people’s freedom to act as they please?

- a. “People have freedom to do whatever they please subject to the condition that it doesn’t infringe on others’ freedoms.”

7.4.B – Read and discuss the following article using the questions below to guide your discussion [20 min]:

ARTICLE: [The Individual in Society](#) by Ludwig von Mises (FEE.org)

“Freedom and liberty always refer to inter-human relations. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people. In the frame of society everybody depends upon his fellow citizens. Social man cannot become independent without forsaking all the advantages of social cooperation. The fundamental social phenomenon is the division of labor and its counterpart — human cooperation.”

DISCUSSION QUESTIONS: The Individual in Society

1. *What does the author mean by the statement “Experience teaches man that cooperative action is more efficient and productive than self-sufficient individuals?”*

- a. The author states, “The natural conditions determining man’s life and effort are such that the division of labor increases output per unit of labor expended. These natural factors are: (1) The innate inequality of men with regard to their ability to perform various kinds of labor, and (2) the unequal distribution of the nature-given, nonhuman opportunities of production on the surface of the earth.”
- b. Due to the differences in people’s abilities to perform certain tasks, everyone is better off if they specialize and trade. When people specialize in what they are most efficient at producing and trade with others, they save time and are able to consume more goods than they were able to previously.
- c. Liberty and freedom are the conditions of man within a contractual society. Social cooperation under a system of private ownership of the means of production means that within the range of the market the individual is not bound to obey and to serve an overlord. As far as he gives and serves other people, he does so of his own accord in order to be rewarded and served by the receivers. He exchanges goods and services, he does not do compulsory labor and does not pay tribute. He is certainly not independent. He depends on the other members of society. But this dependence is mutual. The buyer depends on the seller and the seller on the buyer.

2. *What does the author think of the statement “The workers are at the mercy of their employers?”*

- The author explains “Now, it is true that the employer has the right to fire the employee. But if he makes use of this right in order to indulge his own whims, he hurts his own interests. It is to his own disadvantage if he discharges a better man in order to hire a less efficient one.”
- This shows that the employee is not at mercy of the employer because it is in the employer’s best interest to keep the most efficient employee’s for their business.
- Employers and employees are free to make their own decisions, however the market has consequences for these decisions. The author uses the example of the shopkeeper being rude to customers – he is free to do so but must bear the consequences of his decision.
- Employees are free to make choices about their work. The author uses the example of employees being able to avoid working in industries they do not morally agree with. The author explains, “Nobody is forced to go into the liquor industry or into a gun factory if his conscience objects.”

3. *According to Mises, what is the proper role of government for regulating economic matters?*

- Mises writes, “Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of economic freedom. Where there is no market economy, the best intentioned provisions of constitutions and laws remain a dead letter.”

7.4.C – Students will watch the video as an introduction to the Activity that follows [5 min]:

VIDEO: [Individualism vs Collectivism](#) (Learn Liberty, 3:16 min)

“To protect community and preserve the way society contributes to human flourishing, we ought to keep in mind the unique and autonomous individuals that make it up.”

Briefly discuss the following:

- a. Each person is an individual deserving of respect and dignity.
- b. We are social creatures who need community to thrive. We are members of many different communities simultaneously (family, religion, town, region, ethnicity, professions, hobbies, etc.)
- c. One reason we get so much benefit from society is that we are all so different. There is a great diversity of skills, talents, and interests between individuals in society.
- d. If we care about preserving community, we need to think about the unique individuals who make it up.

7.4.D – Complete the following activity about the connection between individualism and civil society [10 min]:

ACTIVITY: Who Am I?

1. Students will write down a description of themselves based on their community as well as personal interests. Use these categories as a guide:

- Family
- Town/Region/Nation
- Ethnicity
- Religion
- Personal Interests
- Personal Affiliations
- Career Ambitions
- Hobbies
- Sports Loyalties

2. Ask students to answer questions by show of hands:

1. Who in class wants to be a doctor? Lawyer? Engineer? Teacher?
2. Who cheers for the New York Yankees? Miami Heat? New England Patriots? Atlanta Braves?
3. How many of you enjoy jazz?
4. How many of you love the Divergent Series?
5. How is it possible for a group with such diverse preferences to live together peacefully?
 - a. Mutual respect for all individuals, respect for property rights, stable rules and laws.
 - b. We are unique and individual people with various hopes, aspirations, talents, etc. “Society is a manifestation of individual differences as they are all brought together.”
6. What kinds of things make it possible for us to develop our diverse talents and interests?
 - a. We generally have our basic needs met (food, clothing, shelter, etc.) thanks to the fact that we live in a country with relative economic freedom.
 - b. We have the freedom to choose, this allows us to follow our own dreams for living a good life.

-
7. What would need to happen in order for a society to be made up of people who all do the same things and live the same way with no choices?
- A central authority would have to grow in power over the people.
 - People would in essence would prefer to be “taken care of” rather than to take care of themselves.
 - This mindset leads to people voting away their rights as individuals, their freedoms, and property rights, thus giving government power and control over their individual lives.
 - Authority figures/government usually does this by using propaganda that promises everyone security and prosperity for the “greater good.”

7.4.E –Read the following article as Self-Study and answer the discussion questions [15 min]:

ARTICLE: [The Individual and Society](#) by Arthur Foulkes (FEE.org).

“Society exists to serve individuals-not the other way around.”

DISCUSSION QUESTIONS: The Individual and Society

1. It is commonly believed the individual is in conflict with society unless the individual subordinates his or her wants and needs for the “greater good.” Do you agree?

- Society itself is simply made up of individuals. Without individuals, there is no society.
- “As Ludwig von Mises noted, “The individual lives and acts within society. But society is nothing but the combination of individuals for cooperative effort.”
- Ludwig von Mises goes on to explain, “...work performed under the division of labor is more productive than isolated work and man’s reason is capable of recognizing this truth.”
- There is no conflict between individuals and society when people deal with one another peacefully through voluntary trade.

2. What is the key concept that David Ricardo explained about the relationship between individuals and society?

- “Individuals have long understood that they can satisfy their expanding wants only through exchange and association with others. The tremendous bounty of such cooperation, famously explained by David Ricardo nearly 200 years ago, makes social interaction the individual’s greatest tool for achieving his goals.”
- Frédéric Bastiat explains that established societal rules and laws should support cooperation within society. Individual rights should be protected by these laws which “flows from a general law of humanity,” not just from social contracts.

3. *A multitude of government schemes are justified in the name of the common good—even if they benefit only a small minority. How and why does the government do this?*

- a. “What such government schemes have in common is mistrust of individuals’ choices in a free-exchange environment. They seek to impose “a new vision” designed to save us from the chaos of the unregulated marketplace.”
- b. The majority of people are led to believe that someone else should make decisions for them such as how to best educate our children, what type of healthcare we need, how to save for retirement, etc.
- c. Many individuals believe that we need a central authority to “save” humanity from the “chaos” of thinking for ourselves and acting in our own rational, self-interest.
- d. Fear that this government propaganda might be true and the false comfort that we will be “taken care of” fuels this “anti-progress” political agenda. The only people who win are those who have positions and authority in the central decision-making process.

4. *What does Ludwig von Mises mean by the phrase, “sovereignty of the consumers?”*

- a. “The beauty of voluntary exchange and the free market is that it allows consumers to peacefully allocate resources according to their own preferences.”
- b. Autonomous individuals, not government planners, should determine the needs of consumers. This never makes authoritative planners happy.
- c. “Bastiat nicely summed up the attitude of the planners when he wrote, “While mankind tends toward evil, the legislators yearn for good; while mankind advances toward darkness, the legislators aspire for enlightenment; while mankind is drawn toward vice, the legislators are attracted toward virtue. Since they have decided that this is the true state of affairs, they then demand the use of force in order to substitute their own inclinations for those of the human race.”

Lesson Recap

- Each person is an individual deserving of respect and dignity.
- We are social creatures who need community to thrive. We are members of many different communities simultaneously (family, religion, town, region, ethnicity, professions, hobbies, etc.)
- One reason we get so much benefit from society is that we are all so different. There is a great diversity of skills, talents, and interests between individuals in society.
- If we care about preserving community, we need to think about the unique individuals who make it up.
- Due to the differences in people’s abilities to perform certain tasks, everyone is better off if they specialize and trade.
- “The fundamental social phenomenon is the division of labor and its counterpart — human co-operation.”
- The market encourages individuals to interact peaceably and build mutual trust.

Additional Resources

VIDEO: [Big Think: John Mackey - Co Founder and CEO, Whole Foods](#) (Conscious Capitalism, 8:24 min)

“John Mackey talks about the principles of Conscious Capitalism, including; property rights, rule of law, and freedom to trade.”

ARTICLE: [How Airbnb and Lyft Finally got Americans to Trust Each Other](#) (Wired.com)

“The sharing economy has come on so quickly and powerfully that regulators and economists are still grappling to understand its impact. But one consequence is already clear: Many of these companies have us engaging in behaviors that would have seemed unthinkably foolhardy as recently as five years ago. We are hopping into strangers’ cars (Lyft, Sidecar, Uber), welcoming them into our spare rooms (Airbnb), dropping our dogs off at their houses (DogVacay, Rover), and eating food in their dining rooms (Feastly). We are letting them rent our cars (RelayRides, Getaround), our boats (Boatbound), our houses (HomeAway), and our power tools (Zilok). We are entrusting complete strangers with our most valuable possessions, our personal experiences—and our very lives. In the process, we are entering a new era of Internet-enabled intimacy”

BOOK: Anthem (by Ayn Rand)

LESSON 5 – BUSINESS ETHICS

Description:

Business ethics are moral standards that govern professional conduct. As an entrepreneur or employee, there will be times in your career when you face a difficult decision that requires you to do the right thing. Maintaining ethical business practices promotes good reputation and builds trust. It also builds esteem and encourages efficient and effective productivity.

In this lesson students will watch a video on business ethics. Then they will read and discuss an article on the importance of business ethics in a free economy. Students will read practice decision-making in the “What Would You Do? Activity. Finally, students will read an article for Self-Study titled “Lessons from an Entrepreneur” by David Laband.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 7.3 – Markets and Morality

Lesson 7.4 – Individualism & Civil Society

7.5.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Business Ethics on the Job](#) (Human Relations Media, 2:25 min)

Students will watch a video and answer the following questions: The word “ethics” originates from the Greek word “ethos” meaning “character.” Many times ethics and morals are used interchangeably, however, ethics is a broader term describing external (societal) rights and wrongs- while morals are internal, personal values. We all face difficult decisions in our careers and it’s important to make the right ones as that determines the type of people we will become.

DISCUSSION QUESTIONS: Business Ethics on the Job

1. What is an ethical compass?

- a. An ethical compass is knowing what is right and wrong and doing the right thing both in your personal life as well as in business.

2. Why is business ethics important?

- a. Having good business ethics helps build esteem, encourages productivity that is efficient and effective, and builds your reputation as a trustworthy employee.

3. What are some ramifications of having bad business ethics?

- a. First of all, making the wrong decisions is immoral and can negatively influence a person’s self-worth and overall happiness.
- b. An employee may be fired from a job for making unethical decisions. It can look bad upon the employee as well as the company. In addition, there can be legal ramifications including fines and jail time.

7.5.B – Read and discuss the following article using the questions below to guide your discussion [25 min]:

ARTICLE: [The Importance of Being Ethical](#) (Inc.com)

“Companies with strong ethics programs have found that these efforts can reduce potential costly fines, decrease vulnerability, improve reputation, provide access to capital, favorably influence their bottom line, positively affect their employees' commitment to work and enhance customer loyalty.”

DISCUSSION QUESTIONS: The Importance of Being Ethical

1. What are some of the main benefits of an ethical business?

- a. Potential avoidance of fines – businesses with strong ethical initiatives are less likely to be fined from not complying with laws
- b. Decreased vulnerability – businesses with clearly defined ethics decrease the risk of negatively affecting brand image, management and profitability when they expand their business
- c. Improved brand image and reputation – ethics can encourage positive media attention and recognition through business awards
- d. Access to capital – studies show businesses with strong ethics have greater access to capital
- e. Financial performance – businesses that have strong ethics perform better financially
- f. Employee commitment – employees who believe in the ethical values of their employers work more productively and are more committed to their employer
- g. Customer loyalty – studies show that ethics are one of the most influential business categories or activities

2. Research some companies that have strong ethics. What issues do they support? How successful are they?

- a. Whole Foods – supermarket with stores through the US, Canada and Europe. Core values include: promoting health through healthy eating education, creating ongoing win-win partnerships with suppliers, practice and advance environmental stewardship, serve and support local and global communities, create wealth through profits and growth, support team members, satisfy customers and sell high quality and natural organic products.
- b. Body Shop – beauty products available for purchase online and in various countries worldwide. Values include: defending human rights, promoting education in war-torn areas, animal welfare, activating self-esteem, protecting the planet and raising awareness for health issues.
- c. Unilever – Comprises of over 400 brands of products that relate to health and wellbeing. Core values include: sustainable living, embedding sustainability, own governance, reporting progress, engaging with stakeholders, public policy and advocacy and responding to stakeholder concerns.

7.5.C – Students will decide how they would handle the following “real life” situations [10 min]:

ACTIVITY: What Would You Do?

Read the following three scenarios and consider the best action to take. Be prepared to share your decisions and actions with the class:

1. You are in the middle of a big end-of-year history test and notice that your best friend sitting next to you is struggling. As the teacher turns around, your friend points to a question and asks if the answer is True or False. He knows you're a history wizard and really needs a good grade in order to pass the course. What would you do?
2. You are interning for the summer at a university research laboratory which is being sponsored by one of the big pharmaceutical companies (let's call it PharmX). One afternoon you see a good friend steal a piece of lab equipment for a personal project she is working on. On one hand, you know that stealing is wrong. On the other hand, you know that PharmX is a big corporation that has billions of dollars. They probably would not even know the piece of equipment is missing. What would you do?
3. You are an entrepreneur making ice pops. One day you discover that there is mold on your latest inventory of strawberries. You would lose about \$100 if you dispose of the molded fruit. On the other hand, if you blend the strawberries to make your ice pops, there is a good chance nobody would notice the mold. Perhaps freezing the ice pops will kill the mold. Maybe no one would get sick. Do you really want to throw away \$100? What would you do?

7.5.D Self-Study – Read the following article and answer the questions below. Be prepared to share your answers with the class [20 min]:

ARTICLE: [Lessons from an Entrepreneur](#) by David Laband (FEE.org)

“Businesses that lose their competitive edge to a more efficient rival have three options. They can: (1) change their product/service mix to reflect more accurately what they do best, (2) exit the market, or (3) petition consumers and/or the state for protection against “unfair competition.” The first two responses enhance consumer welfare. To the extent consumers voluntarily purchase more expensive, lower-quality goods produced by domestic manufacturers, no self-respecting economist would argue with their choices: *de gustibus non est disputandum*. However, the instant the state regulates to protect domestic firms from “unfair competition,” the result is higher prices, reduced choice, and lower quality and service for American consumers.”

DISCUSSION QUESTIONS: Lessons from an Entrepreneur

1. When Walmart came into the American market who was ultimately responsible for the many smaller companies that went out of business?
 - a. The author states: “Every dollar spent at Walmart was a figurative dollar and a quarter not spent for similar merchandise at Sears, K-Mart, J.C Penney, or any of the other large chain department stores. Perhaps more importantly, it was a dollar and fifty cents not spent at local, small businesses, they argued. Some owners of small businesses, unable to take advantage of Walmart’s economies of scale, sought to prevent Walmart from being built in their local communities. The everyday low-price strategy employed by Walmart would put them out of business, they argued. They were (and continue to be) half correct. It is true that Walmart’s competitors lost business. However, let’s get the cause and effect straight: Walmart never put anybody out of business, American consumers did.”
 - b. The author shows that Walmart didn’t put smaller less competitive businesses out of business, the American consumers who stopped shopping at these places and starting shopping at Walmart did.

2. Should businesses have protection against bigger or overseas competitors?
 - a. Walmart gained more customers because it was better able to meet customers wants – it featured lower prices, good service and better quality brands in comparison to other similar chain stores
 - b. The author explains that having competition in the market forces businesses to keep prices low, and continuously find new ways to be more productive and better service consumers. Consumers always benefit from increased competition in the market, regardless of whether the competitors are domestic or overseas businesses
 - c. Imposing protectionist policies against bigger or overseas competitors would mean that everyone loses – all consumers would have to pay in the form of increased taxes to fund the domestic businesses subsidies & they would have to pay higher prices for goods as well as having a smaller range of goods and services.

Lesson Recap

- Companies with strong ethics programs have found that these efforts can reduce potential costly fines, decrease vulnerability, improve reputation, provide access to capital, favorably influence their bottom line, positively affect their employees' commitment to work and enhance customer loyalty.
- Ethical business practices ensure a good reputation & long term relationship with customers. It also builds trust among business associates and suppliers.
- Having good business ethics helps build esteem, encourages productivity that is efficient and effective, and builds your reputation as a trustworthy employee.

Additional Resources

PODCAST: [Sam Altman on Start-Ups, Venture Capital, and the Y Combinator](#) (EconTalk, 1:05:41 min)

“Sam Altman, president of start-up accelerating firm Y Combinator, talks to EconTalk host Russ Roberts about Y Combinator’s innovative strategy for discovering, funding and coaching groundbreaking startups, what the company looks for in potential startups and Silicon Valley’s attitude toward entrenched firms. The two also discuss Altman’s thoughts on sectors of the economy that are ripe for innovation and how new firms are revolutionizing operations in these industries”

ARTICLE: [Ethical Behavior is Good Business](#) (entre-ed.org)

“Ethical business practices include assuring that the highest legal and moral standards are observed in your relationships with the people in your business community. The day-to-day operations of a business require everyone to make decisions all the time. Practice in developing a code of ethics and then applying it to situations is important to establishing an ethical business image.”

MODULE 8 – HOW DO I BECOME AN ENTREPRENEUR?

“The way to get started is to quit talking and begin doing.”

- WALT DISNEY

Overview:

Entrepreneurs make money by creating value and serving the needs of others. Successful entrepreneurs are both wealth creators and problem solvers. In this module, students will engage in hands-on activities to practice entrepreneurship as an activity (starting a business) and entrepreneurship as a way of thinking (innovation, drive, creativity).

One of the best ways for students to learn is through practical experience. Starting a business teaches students important life skills. Anyone can start a business. You don't have to be creative. You don't have to have the next big idea. You don't have to have a lot of money. You don't have to take on a lot of risk.

In this module, students will learn more about getting started as an entrepreneur. They will learn to create a plan, set goals, and work toward achieving those goals.



Concepts and Terms:

- Business Model
- Business Plan
- Distribution Model
- Entrepreneurship

Objectives:

Students will be able to...

- Begin thinking with an entrepreneurial mindset
- Identify business opportunities and come up with ideas of businesses they can start and run
- Develop and evaluate a business model
- Understand the factors and traits that lead to success
- Understand how to learn from failure, and also positioning themselves to fail in the right way
- Independently research tools and resources to help build their business

Related Standards:

STANDARD 14: ENTREPRENEURSHIP – Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

STANDARD 15: ECONOMIC GROWTH – Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living.

LESSON 1 – GETTING STARTED

Description:

In this lesson, students will watch two brief videos that encourage and motivate students to start a business. Entrepreneurship and small business play essential roles in economic growth. Students will then brainstorm ideas for teen businesses. Links in the Additional Resources section at the end of the lesson provide additional business ideas and tools for starting a business.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

None

8.1.A – Watch and discuss the following video using the questions below to guide your discussion [5 min]:

VIDEO: [Take the Risk. Be an Entrepreneur.](#) (EconFree, 1:12 min)

“Potential entrepreneurs face no shortage of hurdles. With economic and regulatory uncertainty increasing the cost of striking out on your own, many would-be business owners are sitting on the sidelines. Even amid these deterrents, small business owner Jim Garland still recommends aspiring entrepreneurs “go for it.” With the risk of starting a new venture comes the potential for great rewards. And not just for the entrepreneur but for society at large. America is a country built by those willing to take a risk and those are the type of people we need to start businesses, create jobs and get the economy going again.”

DISCUSSION QUESTIONS: Take the Risk. Be an Entrepreneur.

1. What are a few of the main hurdles entrepreneurs face?

- a. Entrepreneurs face many challenges including:
 - Uncertainty about future market conditions
 - Uncertainty caused by regulations and taxes imposed by government
 - Startup costs and risks of starting a business
- b. Start thinking about ways we can start a business while minimizing risk and startup expense. We will discuss ideas for doing so in future lessons.

2. Do you think the risk is worth it? Are you up for the challenge of starting a new business?

- a. Starting a business is a noble endeavor. Entrepreneurs create wealth and jobs. They also work very hard to meet the needs of the community.
- b. Starting a business will be a challenge. It will take perseverance, self-discipline, and hard work.
- c. Starting a business can also be very rewarding.
- d. Entrepreneurs develop valuable skills as they work to build their business. In *Lesson 2 – Developing Your Business Model*, we will explain that you can start a business with little risk.
- e. Entrepreneurs can make a lot of money. They serve themselves by serving other people well.

Teacher Tip: Emphasize the point entrepreneurship and small businesses drive the economy forward.

8.1.B – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Kauffman Sketchbook - "Go Be An Entrepreneur"](#) (Kauffman Foundation, 3:38 min)

“Geoffrey Clapp, Health Technology Entrepreneur and Advisor to Rock Health, former CTO/COO at Health Hero Network Inc., Director of Engineering at Eastman Kodak, Kodak Imagination Works and Senior Engineer at Apple Computer, Inc. discusses his philosophies on entrepreneurship.”

DISCUSSION QUESTIONS: Go Be An Entrepreneur

1. *What are a few key questions you should begin asking as you start your business?*
 - a. What is the problem I am solving? (e.g. How am I creating value?)
 - b. How much money am I going to make? (e.g. Is this going to help supplement my leisure activities, or is this going to be a fulltime job)
 - c. Do I have the right team to achieve my goals?
 - d. What is my distribution model? (e.g. How am I going to get my product or service from the producer to the customer?)

2. *Why do you think so many people have a business idea, but they never actually start their business?*
 - a. Many entrepreneurs get stuck planning their business. They never actually start their business.
 - b. Perhaps they are intimidated or unsure of the process.
 - c. Maybe they are waiting for just the right time. If only *this* happens, then I will start my business...
 - d. Geoffrey Clapp encourages entrepreneurs to “Get out of theory and go build something. Make something happen.”

3. *What are a few things you could start doing now to build your business?*
 - a. Geoffrey Clapp mentions that great startups go out and talk to their users. You can begin talking to potential customers to get their feedback about your idea or business.
 - b. Geoffrey also mentions the importance of having good mentors. Mentors should be able to help you with things such as recruiting your team, providing feedback about your business model, developing your distribution model, and assessing your product market fit. Begin by identifying mentors that can help advise you about your business and ask them if they would like to be your mentor.
 - c. Get started building something. Get started solving a problem or building a solution that you can begin testing in small areas.

8.1.C – Complete the following activity and be prepared to discuss your results with the class [30 min]:

Teacher Tip: For this activity, students will divide into groups and spend 15 minutes brainstorming a list of at least 10 ideas for businesses they can start. Spend an additional 15 minutes sharing results with the class.

ACTIVITY: Generating Business Ideas

In Module 1 we completed an activity called *Serving Others in Your Community* during which we identified opportunities for starting a business to help meet a need in your community. Using the lessons from Modules 1-7 we are now going to expanding on that line of thinking to generate ideas for starting a business.

1. Read the suggestions below and record a list of at least 10 businesses you think you can realistically create. Here are a list of suggested questions to ask yourself when brainstorming your business ideas:

- What is a problem I can solve?
- What skills do I have? What do I enjoy doing?
- What resources would I need to start this business? Is there anyone that can help me?
- How much will it cost? What businesses can I start without large startup expense?
- What businesses can I start that would allow me to test the market in small ways first to see if people are willing to pay for this product or service?
- Is this a business I can actually start? Note: In the next lesson you will develop a business model for one of the business ideas you generate in this activity.
- How hard are you willing to work? Don't try to start a business that will take 20 hours of time each week if you are not willing to devote the time to your business.

Teacher Tip: Students can explore these websites to help generate ideas for businesses they can start today. While browsing these sites, ask students to also identify the tools they think will be helpful for starting and running their business.

Tips for generating business ideas:

- Search the web for key terms like “teen business ideas.” Your idea does not have to be original. If there is already a market for the good or service, there is evidence the idea can be successful! Here are a few sites to get you started:
 - ✓ YourTeenBusiness.com
 - ✓ [Business Plan Basics](http://BusinessPlanBasics.com)
 - ✓ [Great Business Ideas for Youth](http://GreatBusinessIdeasforYouth.com)
- Ask your family and friends for ideas about services they need that you might be able to provide.
- Stay alert and actively look for opportunities where a need in your community is not being met. Is there a new or better way to solve a problem or meet a need?
- What are the current trends?

Business Ideas

- ▶ Baby-sitting service
- ▶ Baking
- ▶ Bicycle repair
- ▶ Birthday party coordinator
- ▶ Candle-making
- ▶ Candy sales
- ▶ Car washing
- ▶ Cleaning services
- ▶ Clothing design
- ▶ Computer help service
- ▶ Delivery service
- ▶ DJ
- ▶ Dog walking
- ▶ Errand Services
- ▶ Formatting and graphic design
- ▶ Gardening
- ▶ Jewelry-making
- ▶ Laundry service
- ▶ Lawn care
- ▶ Meal delivery
- ▶ Messenger service
- ▶ Music lessons
- ▶ Office organizer
- ▶ Painting/refinishing furniture
- ▶ Performing/entertaining
- ▶ Personal shopper
- ▶ Pet care
- ▶ Photography/videotaping
- ▶ Plant care
- ▶ Small home repairs
- ▶ Software installation
- ▶ Translating
- ▶ T-shirt design
- ▶ Tutoring
- ▶ Web site design
- ▶ Window washing

My Business Ideas:

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

2. After brainstorming a list of business ideas, share your results with the group. Which ideas are your favorites? Which are you most excited about creating? Together discuss the feasibility of turning your ideas into an actual business. What would be the biggest challenges?

Continue to think about what business you would most like to start and build. In the next lesson, you will begin developing a business model for the business idea you select.

Teacher Tip: In the next lesson, students will learn about building a business model. Ask them to be thinking about the business they would actually want to start.

3. From your list of ideas for creating or providing a good or service that others might need, select one idea you think you can turn into an actual business. We will use your business idea as our reference as we work through other activities in lessons that follow.

Tip: The business idea you select should be realistic. Pick a business that requires little cash to get started. There are many ways to use your brains, talents, skills, and work ethic to serve others and make money doing it!

Business Idea I Want To Use For This Activity:

1.

Lesson Recap

- Anyone can start a business. You don't have to be creative. You don't have to have the next big idea. You don't have to have a lot of money. You don't have to take on a lot of risk.
- Starting a business will be a challenge, but it can also be very rewarding. It will take perseverance, self-discipline, and hard work.
- There are many great resources available online to help you generate ideas for a business.
- Get started building something today. Start solving a problem or building a solution that you can begin testing in small areas.

Additional Resources

ARTICLE: [20 Small Business Ideas for Teenagers to Start from Home](#) by Ajaero Tony Martins (MyTopBusinessIdeas.com)

“What are the best small business ideas for teenagers to start? What is the best business ideas for teens in school or at home? Many people believe the chances of startup success for teens are limited but I am writing this to dispute your belief. Teens have a great chance of succeeding as entrepreneurs if they get the right guidance.”

ARTICLE: [Richard Branson on Finding the Right Path](#) by Richard Branson (entrepreneur.com)

"I'm very intrigued about what you are going to go on to achieve... But the only way for me and the rest of the world to find out about it is for you to decide on a direction first. And the only way to find out if you have chosen the right path is to get out there and try it."

ARTICLE: [Are Successful Entrepreneurs Born or Made? \[.pdf\]](#) by Jeff Sandefer (actonmba.org) “Jeff Sandefer from Acton MBA and the Acton Foundation for Entrepreneurial Excellence explores the secret to entrepreneurial success: skill, character, or luck?”

ARTICLE: [So You Want to be an Entrepreneur? \[.pdf\]](#) by Jeff Sandefer (actonmba.org)

“So You Want to be an Entrepreneur? Don't jump in unprepared. This brief essay offers advice about where to start.”

VIDEO: [Cameron Herold: Let's raise kids to be entrepreneurs](#) (TED, 22:08 min)

“Bored in school, failing classes, at odds with peers: This child might be an entrepreneur, says Cameron Herold. At TEDxEdmonton, he makes the case for parenting and education that helps would-be entrepreneurs flourish -- as kids and as adults. Filmed in Edmonton, Canada.”

VIDEO: [The Making of A Young Entrepreneur: Gabrielle Jordan Williams at TEDxRockCreekPark](#) (TED, 5:27 min)

"Gabrielle Jordan Williams is an author, entrepreneur, jewelry designer, inspirational speaker and philanthropist. She began her business, Jewelz of Jordan, at the age of 9. At 11, Gabrielle discovered her inspirational talents and received national recognition for her #1 Amazon Bestselling book, *The Making of a Young Entrepreneur: The Kids Guide to Developing The Mind-Set for Success*. With a portion of the profits, Gabrielle gives to organizations in her community such as her local food pantry and charities that care for youth such as Smile Train and the Children's National Medical Center. Gabrielle's "Dream Big" message has inspired countless youth and adults and reminds the entire population that you are never too young to live your dreams."

LESSON 2 – DEVELOPING YOUR BUSINESS MODEL

Description:

In this lesson, students will begin developing a business model for the business they selected in *Lesson 1- Getting Started*. Entrepreneurs are successful when they have a plan for achieving their goals. That plan will almost always change and evolve, but it is important that you start with a plan. This lesson starts with an introduction to the concept of a business model and then students will learn how to visually map their business model using the Young Entrepreneur’s Business Model Canvas. The canvas framework is a great tool that enables lean startups to quickly design, discuss, and improve a business model.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument, poster board, sticky notes, markers

Prerequisites:

Lesson 8.1 – Getting Started

8.2.A – Review the following introduction to the concept of a business model [10 min]:

ACTIVITY: Business Model Basics

A business model describes your business idea and provides an overall description of how your business functions. It is a high-level, easy to understand plan for your business. The business model should focus on the ways your business will create value. The business model will answer such questions as:

- How will you create value for your customers?
- How will you reach your customers?
- How much will your product or service cost?
- How much money do you plan to make?
- What resources will you need to start your business?

A business model does not have to be overly detailed, but entrepreneurs should still outline their business goals and their plans for achieving those goals.

Successful entrepreneurs do three key things:

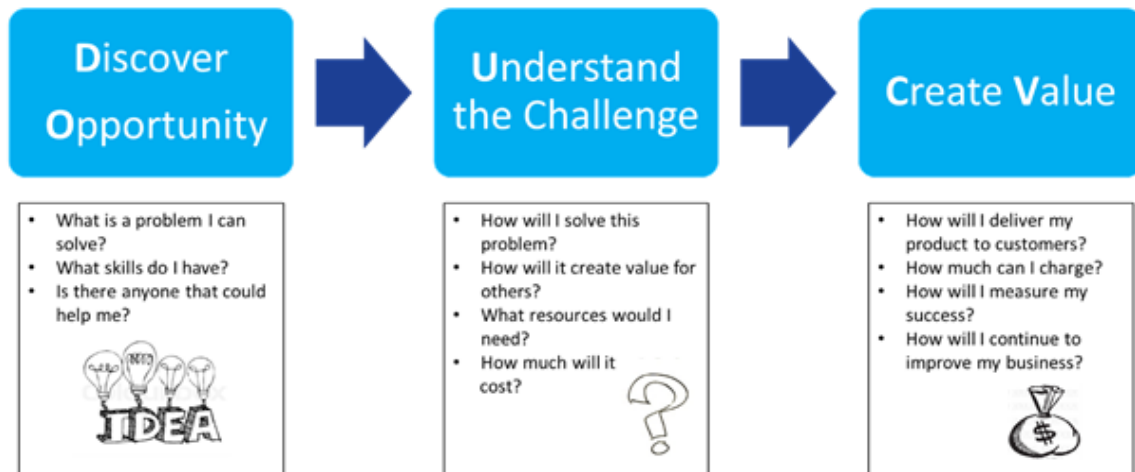
1. **Discover Opportunity** – Entrepreneurs identify an unmet need or discover an opportunity to improve on the delivery an existing product or service.
2. **Understand the Challenge** – Once an opportunity has been discovered, entrepreneurs seek to understand the challenge of what it will take to capitalize on this opportunity. The need to understand how their solution will create value for people and what resources they need to deliver their solution.
3. **Create Value** – Entrepreneurs put their ideas into action and deliver value to their customers.

Entrepreneurs **D**iscover **O**pportunity. They **U**nderstand the **C**hallenge. They **C**reate **V**alue.

As you think through your business ideas as yourself: How **DO U** Create Value?

The Young Entrepreneur's Business Model

Serving Yourself by Serving Others Well



In the next part of this lesson, students will learn to visualize and map their business model using a tool called the business model canvas. A business model canvas allows you to quickly design, discuss, and improve your business model.

8.2.B – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Business Model Canvas Explained](#) (Strategyzer, 2:19 min)

“A 2 minute overview of the Business Model Canvas, a tool for visionaries, game changers, and challengers. This method from the bestselling management book Business Model Generation is applied in leading organizations and start-ups worldwide.”

DISCUSSION QUESTIONS: Business Model Canvas Explained

Teacher Tip: It may be helpful to write each of the nine building blocks on the board to facilitate class discussion.

1. *As discussed in the video, what are the 9 basic building blocks commonly used to describe a business model?*

- a. Value Proposition(s): The explanation of how your business provides value in ways that distinguish your business from your competitors. Every section of your business model should relate back to your value proposition.
- b. Key Activities: The most important business activities required to create value and deliver your value proposition.
- c. Key Resources: The physical, financial, and human resources that are necessary to create value for your customer and operate your business.
- d. Partner Network: The relationships you develop and the strategic alliances you cultivate to optimize your business.
- e. Customer Segments: The customers you serve and the different needs your business addresses.
- f. Channels: The channels you reach your customer to deliver your value proposition.
- g. Customer Relationships: The type of relationship your business creates with your customer.
- h. Cost Structure: The costs of operating your business.
- i. Revenue Streams: The money you make from each customer segment.

2. *Why is the business model canvas a useful tool for creating your business model?*

- a. The business model canvas is a tool that allows you to map out your entire business model in one image. This allows entrepreneurs to quickly describe and discuss their business.
- b. The business model canvas is also a useful tool for helping to invent new business models quickly.

8.2.C – Watch and discuss the following video using the questions below to guide your discussion [25 min]:

ACTIVITY: *Young Entrepreneur’s Business Model Canvas*

Business theorist, Alexander Osterwalder, developed a business model canvas based on the 9 building blocks introduced in 8.2.B during the video titled [Business Model Canvas Explained](#).

Below is a simplified version of the business model canvas in a layout that enables young entrepreneurs to outline and summarize the key elements of their business.

Teacher Tip: For an interactive classroom activity, provide students with poster board, makers, and sticky notes. Instruct students to create the outline of the business model canvas below. Students then can use the sticky notes to describe key aspects of their business, making changes quickly as they expand on their initial ideas.

Think deeply and creatively to answer the questions below for each section below. Each section of the business model canvas only needs a few words to describe the key aspects of your business.

Young Entrepreneur’s Business Model Canvas



<p style="text-align: center;"><u>Activities and Resources</u></p> <ul style="list-style-type: none"> • What resources do you need to start your business? • What do you need to have or do to deliver your Value Proposition? • How many people do you need on your team? • How much time will it take? • Is there anyone that can help me? What skills or resources do they have? Are there any strategic partnerships or alliances you can form? 	<p style="text-align: center;"><u>Value Propositions</u></p> <ul style="list-style-type: none"> • What value propositions are you offering the customer? • Why would your customer choose you? • What factors will give you a competitive advantage? • What are the core principles of your business? 	<p style="text-align: center;"><u>Customers</u></p> <ul style="list-style-type: none"> • Who are you creating value for? • Who are your most important customers? • How will you reach your customers?
<p><u>Costs</u></p> <ul style="list-style-type: none"> • What are your sources of revenue? How will you make money? • What are customers willing to pay for product(s)? What do they currently pay for similar products? 	<p><u>Revenue</u></p> <ul style="list-style-type: none"> • What are your sources of revenue? How will you make money? • What are customers willing to pay for product(s)? What do they currently pay for similar products? 	

8.2.D – Self-Study: Over the next few days, continue to revise your business model. Discuss drafts of your business model canvas with your parents, friends, and mentors. Students will present their business model canvas to the group as part of Lesson 5 for this module.

Teacher Tip: Instruct the students to spend time over the next few days developing their business model. They should discuss drafts of their model with parents, friends, and mentors. Students will present their business model canvas to the group as part of Lesson 5 for this module.

Lesson Recap

- Building a business is not easy, but success is possible if you take it one step at a time.
- The Youth Entrepreneur’s Business Model Canvas is a simplified tool that allows you to map out your entire business model in one image. This allows entrepreneurs to quickly describe and discuss their business.
- The business model canvas is also a useful tool for helping to invent new business models quickly.
- Every section of your business model should relate back to your value proposition. How are you creating value?
- Successful entrepreneurs **D**iscover **O**pportunity. They **U**nderstand the **C**hallenge. They **C**reate **V**alue. As you think through your business ideas as yourself: How **DO U** Create Value?

Additional Resources

VIDEO: [Giles Shih - Making an idea into a business](#) (Kauffman Foundation, 3:35 mins)

“Giles Shih, President and CEO of BioResource International, talks about his company’s origins including founding along with his father. Giles also advises entrepreneurs to get out there and learn as you go.”

VIDEO: [Capture Your Business Model in 20 Minutes - Lean Canvas](#) (Ash Maurya, 22:29 mins)

“If you are spending more than 20 minutes on your initial business model canvas, you are doing it wrong. This video will show you how to capture your core business model assumptions on a Lean Canvas in just 20 minutes.”

LESSON 3 – ADVICE FOR YOUNG ENTREPRENEURS

Description:

Successful entrepreneurs have valuable stories and experiences to share, and they are often eager to share what they have learned. Young entrepreneurs should actively seek advice from others who have found ways to achieve their goals. In this lesson, students will watch a series of short videos in which entrepreneurs share valuable tips, lessons, and advice for success. Young entrepreneurs should identify mentors they trust for advice as they start their business.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 8.1 – Getting Started



8.3.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Advice for Young Entrepreneurs: How to Be Taken Seriously](#) (PHP Agency, 3:20 min)

“To succeed at a young age as entrepreneurs and leaders, young people must find mentors, put themselves in situations that encourage growth, and take themselves seriously even in the face of opposition.”

DISCUSSION QUESTIONS: Advice for Young Entrepreneurs

1. What do you think are a few of the most valuable pieces of advice presented by the entrepreneurs in this video?

- a. Find a good mentor.
- b. Be around the right people (the people who are living the kind of life you want to live).
- c. Put yourself in different environments that push your comfort zone and allow you to grow.
- d. Read the right books. (See Appendix A: Recommended Books for the Young Entrepreneur)
- e. Take advantage of the opportunities you have.
- f. Do something that you love.
- g. Work with a sense of urgency. Your time is limited.

2. Can you think of other advice you would give to yourself or another young entrepreneur?

- a. Set goals
- b. Take action
- c. Ask for help
- d. Listen to advice
- e. Learn from your mistakes
- f. Work to overcome your challenges

8.3.B – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [What Leads to Success?](#) (TED, 3:46 min) – “Inspired after being asked by a high-school student “what leads to success?” Richard St. John went out and researched the field. Seven years, and 500 interviews later, this is his answer. Its short, and its funny.” **[Warning Some Adult Language]**

DISCUSSION QUESTIONS: What Leads to Success

1. *After seven years and 500 interviews, what are the eight key factors of success identified by Richard St. John?*

- Passion – “If you do it for love, the money comes anyway.”
- Work – “It’s all hard work. Nothing comes easily.”
- Good – “Practice. Practice. Practice. Get good at what you do.”
- Focus – “Focus yourself to one thing.”
- Push – “Push yourself mentally and physically.”
- Serve – “You have to serve others something of value.”
- Ideas – “Listen, observe, be curious, ask questions, problem solve, make connections.”
- Persist – “Persistence is the number one reason for success.”

2. *What steps will you take to incorporate these eight success factors into your life and your business?*

8.3.C - Read the following article about entrepreneurship and answer the questions below [15 min]:

ARTICLE: [7 Tips to Guide Young Entrepreneurs](#) by John Pilmer (entrepreneur.com)

“As the CEO of a successful startup myself, with decades of experience launching prosperous companies, I know what it takes to make it. If I could go back and give my 20-something self a bit of advice about starting out as an entrepreneur, these are the seven tips I’d start with.”

DISCUSSION QUESTIONS: 7 Tips to Guide Young Entrepreneurs

1. *Why is it important to choose an interest that you can be passionate about?*

- a. Starting a business can be difficult. If you don’t have a passion for what you are doing, it may lead to feeling burned out. Also, failures will happen.
- b. The author explains, “...failures are most likely to lead to success if you get involved with something you believe in.”

2. *How can being honest with yourself help you define your market?*

- a. Entrepreneurs must be honest about what they can commit to the business. This will help you define your scope.
- b. If you’re a startup and still a student, it might make the most sense to start with a narrow, realistic target market.

3. Do you know anyone that you can ask to be a mentor for you and your business?

- Many communities offer networking opportunities and resources for entrepreneurs.

8.3.D – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Kauffman Sketchbook - "Visionaries"](#) (Kauffman Foundation, 3:12 min)

“Starting a business may seem like a daunting task. It is manageable if you simplify things and take steps in a methodical way. “Dave Gilboa and Neil Blumenthal, co-founders and co-CEOs of Warby Parker, share practical advice for early-stage entrepreneurs.”

DISCUSSION QUESTIONS: Kauffman Sketchbook - "Visionaries"

1. What is the difference between taking “leaps of faith” and taking “steps of faith”?

- a. Taking smaller steps allowed Dave and Neil to make the daunting task of starting a business more manageable.
- b. They explain that their approach was to simplify things and take steps in a very methodical way.

2. How is being “outside the industry” a benefit to Dave and Neil as they started their business.

- a. Being outsiders allowed them to look at unconventional ways to solve the challenges they faced.
- b. They forged their own path.

3. What was one of the first core values they established for their new company?

- a. Take our work seriously, but don’t take ourselves seriously.
- b. They wanted to set ambitious targets, but also have fun along the way.

Lesson Recap

- Finding a good mentor is one of the most important things a young entrepreneur can do to improve chances of success.
- Entrepreneurs should surround themselves with the kinds of people they would like to become.
- Accomplished entrepreneurs list passion, hard work, persistence as a few of the key factors for success.
- By breaking a daunting task into smaller steps and approaching each step in a methodical way, entrepreneurs can accomplish big things without being overwhelmed.

Additional Resources

ARTICLE: [Natural Born Entrepreneur: Lessons of a Serial Entrepreneur](#) by Dan Bricklin (Harvard Business School)

“Are entrepreneurs born or made? “Both” Says Dan Bricklin, the inventor of VisiCalc and creator of four startups. “Sure, training, talent, and that most elusive component, good timing, are essential. But they are not enough. You need to have a true passion for what you’re doing”. Bricklin describes his formative experiences and lessons he’s learned along the way: Know your true talent, don’t wait to get started, be frugal, and recognize that you are not your business”

ARTICLE: [Top 10 TED Talks for Entrepreneurs in 2014](#) by Oscar Raymundo (inc.com)

“If you've yet to accumulate enough frequent flier miles to dash off to South America for this global minded innovation conference, you can get inspired at home by watching the following top TED talks of the year”

ARTICLE: [7 Ways to Think Differently About Fear by Sherrie Campbell](#) (entrepreneur.com)

“To become abundantly successful you must master fear, understand its true purpose and use it to your greatest advantage. When you know fear and how to use it, you will actualize your success.”

VIDEO: [“Competition. Cooperation. Innovation.”](#) – (Jared Nichols, 2:19 min)

“In order for competition to foster innovation it has to be wrapped in a package of cooperation... Competition is good. But competition in context makes things so much better. And in the 21st century we really have to grasp onto cooperation...as the primary mode of motivation, innovation and moving forward into a viable future.”

ARTICLE: [“The 13 Biggest Failures From Famous Entrepreneurs And What They've Learned From Them”](#) by Belle Beth Cooper (Business Insider)

“This time, we wanted to learn about the darkest moments of successful and famous entrepreneurs and what their lesson has been. Without any further ado and in their own words, here are some of the biggest mistakes and lessons learned from 13 successful entrepreneurs.”

VIDEO: [Steve Jobs - Advice to a young entrepreneur](#) (Steve Jobs, 1:13 min)

“Steve Jobs (1955 – 2011) offers hard but honest advice to the young entrepreneur (interview from 1995)”

VIDEO: [Zach Kaplan - CEO of Inventables](#) (Kauffman Foundation, 3:45 min)

“Zach Kaplan, CEO of Inventables (online hardware store for designers), discusses how the revolution of digital manufacturing and desktop publishing can impact a new generation of entrepreneurs.”

VIDEO: [Zach Kaplan - Digital manufacturing revolution](#) (Kauffman Foundation, 3:45 min)

“Zach Kaplan, CEO of Inventables, talks about how his early education helped shape his entrepreneurial roots and describes how a popular movie taught him an important lesson in entrepreneurship. He then recalls the moment when he had to decide between starting a company and taking a job.”

LESSON 4 – LEARNING FROM FAILURE

Description:

As an entrepreneur, not all of your ideas and plans will be successful. The fact that failure from time to time is inevitable should not stop you from trying. In this lesson, students will learn that some of the most important keys to success are how we handle failures and how we learn from failures. Moreover, students will learn how entrepreneurs can fail in a smart way in order to minimize the risk and the cost associated with failure.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 8.1 – Getting Started

8.4.A – Watch and discuss the following video using the questions below to guide your discussion [10 min]:

VIDEO: [Steve Jobs on Failure](#) (SCVHA, 1:42 min)

“You’ve got to be willing to fail, to crash and burn...if you are afraid of failing, you won’t get very far.”

DISCUSSION QUESTIONS: Failure Is Part of Success

1. *Have you ever failed at something?*

2. *Have you ever not tried something because of a fear of failure? Did you regret not trying?*

3. *Many well-known and loved products were the result of a process which involved failure and loss. Do you know any famous entrepreneurs who experienced failure, but who used the lessons learned from this failure to improve their products and create more value for their customers?*
 - a. Thomas Edison – failed over 10,000 times before properly refining a lightbulb and creating the world’s first economically viable system of centrally generating and distributing electric heat, light and power
 - b. Bill Gates – before creating Microsoft he started an unsuccessful company called Traf-O-Data
 - c. Evan Williams – before co-founding the social media giant Twitter, he founded a podcasting platform. Apple released iTunes just a couple months after this podcasting platform was created making it obsolete.

4. *How would society be different if these entrepreneurs had not continued on after failing? What did they learn from failing?*

8.4.B – Watch and discuss the following video using the questions below to guide your discussion [15 min]:

VIDEO: [Failure Is Part of Success](#) (TEDx, 6:54 min)

“Humanity: Many desire success. Reality: Not all achieve it. Why? Because of one fundamental element of success: FAILURE. What does that mean to me?”

DISCUSSION QUESTIONS: Failure Is Part of Success

1. *In the introduction Michael Jordan, arguably the greatest basketball player of alltime says, “I have failed over and over again in my life, and that is why I succeed.” Do you agree that failure is required for success? Why or why not?*
 - a. In this video Eduardo Zanatta explains failure is a fundamental element of success.

2. *What are the three principles for success that Eduardo Zanatta shares in his talk?*

- a. Don't quit too early.
- b. There is no such thing as failure.
- c. The past does not equal the future.

3. *What does Eduardo Zanatta mean that there is no such thing as failure?*

- a. According to Eduardo, if you have learned a lesson and have given your best, then you have succeeded.
- b. Robert Kiyosaki puts it another way: "Sometimes you win. Sometimes you learn."
- c. If we learn from our mistakes then failure is a vehicle. It is a connecting point leading us to success. Eduardo jokes, "Maybe you should go and fail as fast as you can."

4. *Why might it be important for entrepreneurs to understand that past failures do not equal failures in the future?*

- a. Eduardo shares a message from Tony Robbins: "The only thing that keeps us from getting what we want is the story we keep telling ourselves about why we can't have it."
- b. If entrepreneurs are discouraged by past failures, then they will be reluctant to try again in the future. Earlier in the video Eduardo tells the story of the legendary basketball coach, John Wooden, who went 16 years without winning a championship before his historic run of consecutive national championships.

8.4.C – Watch and discuss the following video using the questions below to guide your discussion [20 min]:

VIDEO: [Why Failing Well is the Key to Success](#) (ReasonTV, 13:22 min)

"Failure is inevitable, says McARDLE, who's also a Bloomberg View columnist. But how we handle our own failures and whether we learn from them go a long way in shaping individuals, institutions, and entire societies."

DISCUSSION QUESTIONS: Why Failing Well is the Key to Success

1. *What is good failure? What is a bad failure?*

- a. A good failure is recognizing that you have failed and admit things are going wrong.
- b. A bad failure happens if you don't learn from the failure, or you let it crush you.
- c. As an entrepreneur and in life, you should try to put yourself in position to fail small, if you do fail, in ways that are not catastrophic.

2. *What does Megan McARDLE mean that nothing is more dangerous than perfect safety?*

- a. According to Megan, the opposite of failure is not safety; it is nothing.
- b. Perfect safety means that you are not innovating. It is risk to think you will be doing the same thing in 20 years.
- c. When you think you have found a sure thing, you are not prepared if something goes wrong.

-
3. *Many people think that success and failure primarily depend on natural talent. What is wrong with this message?*
- Talent exists, but talent comes in different forms. People have different skills and abilities.
 - It is not about saying that anything is possible. We all do not have the natural talents to do anything we want.
 - It is important to learn what we can do better relative to our other talents.
4. *What does it mean to “fail faster”?*
- Megan references “fail faster” as she mentions the technological innovations of Silicon Valley. Technology entrepreneurs often use an iterative approach of starting small and testing. If it does work, they improve it. If the idea does not work, they kill it.
 - This approach allows entrepreneurs to learn quickly and minimize the impact of a failure.
5. *What is a one of the strengths of American culture that promotes entrepreneurship?*
- American culture has been good at encouraging people to try. We admire people who have tried and we pick them up if they fail and encourage them to try again.
 - How different cultures treat failure plays a very important role in economic success.

Teacher Tip: Remind students they will be presenting the business model canvas they created for their business during the next class.

Lesson Recap

- Failure is inevitable. All entrepreneurs will fail some of the time.
- Failure is a fundamental part of success if you fail the right way and learn from your failures.
- If you have learned a lesson and have given your best, then you have succeeded.
- A good failure is recognizing that you have failed and admit things are going wrong.
- Entrepreneurs should use an iterative approach of starting small and testing your idea. If it does work, you can improve it. If the idea does not work, you should admit the failure and move on. This approach allows entrepreneurs to learn quickly and minimize the impact of a failure.

Additional Resources

ARTICLE: [6 Truths About Failure Every Entrepreneur Should Embrace](#) (Entrepreneur.com)

“Accepting fear is not easy, and indeed it can be a significant obstacle for many when considering the pursuit of new and unfamiliar opportunities. With the right expectations and an understanding of a few truths, however, the fear of failure can be a powerful weapon in your entrepreneurial arsenal.”

ARTICLE: [Best Advice I Ever Got: Trust in the Process of Failure and Learning](#) (inc.com)

Entrepreneurship is a winding, often uncomfortable journey. The trick to success is learning to live with that.

ARTICLE: [The 7 Toughest Startup Lessons You Don't Want to Learn the Hard Way](#) by Kimanzi Constable (Entrepreneur.com)

“54 percent of young Americans (ages 18-34) want to become an entrepreneur. Entrepreneurship can be wonderful if you build your business the right way.”

VIDEO: [Seth Godin on Failing Until You Succeed](#) (Entrepreneur, 20:34 min)

Author Seth Godin shares his views on taking risks, challenging the status quo and starting a business with Bryan Elliott for 'Behind the Brand.'

VIDEO: [Kevin O'Leary - Failing is Good](#) (Freedom Business Lab, 7:43 min)

"You have to realize that there is no great success without going through the failure first." - Kevin O'Leary from Shark Tank

ARTICLE: [6 Stories of Super Successes Who Overcame Failure](#) by Jayson Demers (entrepreneur.com)

"Failure is not the alternative to success. It's something to be avoided, but it's also only a temporary setback on a bigger, more significant course. Everybody encounters failure at one point or another. What truly matters is how you react to and learn from that failure."

LESSON 5 – TOOLS FOR BUILDING YOUR BUSINESS

Description:

In this lesson, students will present the business models they have developed to the group. At the end of the lesson is a list of suggested resources and tools students can use to continue to learn about entrepreneurship and build their businesses.

Time Required:

45 min

Required Materials:

Internet connection, writing instrument

Prerequisites:

Lesson 8.1 – Getting Started

Lesson 8.2 – Developing Your Business Model



8.5.A – Provide students with the opportunity to present the business model he or she developed and collect feedback from the class[40 min]:

ACTIVITY: Presenting Your Business Model Canvas

For this activity, each student will present their business model canvas to the group. Students should have up to 5 minutes to present and a few minutes to field questions from the group about the business model he or she created.

Teacher Tip: Encourage students to challenge the assumptions of the presentation in order to generate stronger business models, but remind students to be respectful of each person. Also, remind students that business models change and improve. If holes in the model are identified during the presentation, look at this as an opportunity for improvement not as a failure.

8.5.B Provide students with the opportunity to present the business model he or she developed and collect feedback from the class[40 min]:

ACTIVITY: Business Tools and Resources

Below is a list of online resources you can reference as you begin to build your business. Each entrepreneur and each business is different. Use the resources below as a starting point as you begin to discover tools and information that will help you be successful.

[Foundation for Economic Education \(FEE\)](#) – For young minds interested in an introduction to free market economics and its foundations in the broader philosophy of individual liberty, FEE is the best source for inspiring content, programs and community. FEE’s mission is to inspire, educate and connect future leaders with the economic, ethical and legal principles of a free society.

[The Kauffman Foundation](#) - The Kauffman Foundation is an organization that promotes and facilitates entrepreneurship and entrepreneurial education.

[The Lean Startup](#) - Startup success can be engineered by following the process, which means it can be learned, which means it can be taught. The Lean Startup provides a scientific approach to creating and managing startups and get a desired product to customers' hands faster. The Lean Startup method teaches you how to drive a startup-how to steer, when to turn, and when to persevere-and grow a business with maximum acceleration. It is a principled approach to new product development.

[The New Entrepreneur](#) is Bloomberg BusinessWeek's blog geared toward the small business community.

[EntreOasis](#) is a website dedicated to being a central source of information, resources, and social networking for entrepreneurship.

[Entrepreneurship.org](#) - EntreWorld, from the Kauffman Foundation, is a collection of resources and tools for entrepreneurs.

[Inc. Online](#) - Inc. Online provides information for people starting and running their own businesses.

[National Federation of Independent Business](#) - The National Federation of Independent Business is an advocacy organization for small and independent businesses. Its site includes news topics and activities of interest to entrepreneurs and those interested in entrepreneurship.

[Ice House Student Success Program](#)

[YourTeenBusiness.com](#)

Lesson Recap

- **Congratulations!** You have completed *Economics of Entrepreneurship*. You can now use the economic way of thinking to start and grow a successful business. Hopefully, this is just the beginning of your educational journey to learning about economics and entrepreneurship.
- There is no better way to learn than to begin doing. Start your business using knowledge you have learned from these lessons. Reference your favorite lessons as needed for tips and tools to help you succeed.
- Creating and maintaining a culture that embraces entrepreneurship is critical to the long-term prosperity of our economy and our society. **A prosperous future for us all depends on entrepreneurs like you!**

1. What is Entrepreneurship?

- Entrepreneurship is fundamentally about discovering an opportunity to meet a need. By solving a problem or filling a need in society, entrepreneurs not only enjoy profits, they also set the stage for economic growth and prosperity by creating more jobs and encouraging more entrepreneurship.
- A society that embraces entrepreneurship creates more jobs, produces more wealth, and allows individuals to exercise their creative talents. If we think entrepreneurship is a good thing, we should encourage more entrepreneurship by celebrating entrepreneurs and encouraging economic freedom.

2. What is the Entrepreneur's Role in Creating Value?

- Wealth does not simply exist naturally in the world. The things we want and need must be created or produced before they can be enjoyed. Entrepreneurs play a key role in value creation. They create value for themselves by creating value for others.
- Value is subjective and is based on people's preferences, tastes and opinions. This means that the value of a good is ultimately based on the tastes and preferences of an individual. Different people desire (or like) things differently, and the same person can desire the same thing differently at different times. Each of us is the best judge of what we value.
- Entrepreneurs create value by moving resources into more productive areas, innovating new products or processes to replace old ones, and discovering unnoticed opportunities to profit and acting on those opportunities.

3. How Can Entrepreneurs Use Economics to Make Better Decisions?

- We live in a world where our resources are limited compared to our wants. Because we are faced with the fundamental economic problem of scarcity, we have to make choices that involve tradeoffs. Economic thinking provides a set of tools that helps you make better decisions and enables you to better understand the choices of others. Entrepreneurs who use these critical thinking tools are in a position to make better choices about their business.
- Every decision to use a scarce resource has a cost. The cost is the value of the next highest alternative that has to be foregone as a result of your decision. In other words, the opportunity cost is the value of the best alternative forgone. Opportunity costs should always be considered so we can make more informed decisions about ways to best use our scarce resources, including our time.

4. How Does Trade Create Wealth?

- By engaging in specialization and trade, entrepreneurs are able to create far more value for themselves and society than if they were to work in isolation. Trade creates wealth and directs resources from people who value them less to people who value them more.
- Markets are essentially extensive networks of cooperation. Learning to cooperate means you learn to trade well with others. In the market, people compete over ways to better serve people. Competition within a free market economy is actually a competition over who can best cooperate.
- Economic freedom is a key ingredient for economic and social progress. Trade not only creates material wealth, it also tends to promote cooperation, peace, and harmony among people.

5. What Do Profit and Loss Tell Us?

- Prices reflect the unique, situational, and ever changing knowledge of individual circumstances and preferences. Prices help coordinate the actions of people in the market by communicating the local knowledge of individual producers and consumers and providing the incentives for people to act on that knowledge. In a complex economy, a freely functioning price system enables voluntary exchange and social cooperation.
- The profit and loss system provides incentives for entrepreneurs and communicates knowledge about the success (or failure) of their attempt to create value. In a market economy the function of profit and loss is to direct the allocation of resources to the most preferred uses of the people in society.

6. What Institutional Factors Encourage Entrepreneurship?

- People respond to incentives in predictable ways. The “rules of the game,” or what economists call institutions, influence the choices individuals make. Basic institutions like laws and cultural customs establish the foundational incentive structure of an economic system. Societies with an institutional environment that encourages entrepreneurship tend to greater numbers of individuals involved in wealth creating activities.
- Spontaneous order (emergent order) is a logical order that emerges from individual human action but not deliberate human planning or design. Money, language, traffic patterns, culture, and music are all powerful examples of emergent orders. It’s a common misconception that for order to exist in human society there needs to be a central planner or mastermind. In fact, history shows that attempts to centrally plan society results in chaos and disorder.
- Excessive regulations and licensing laws restrict the liberty of average citizens to live out their dreams in meaningful ways. The more barriers that government creates, the more difficult it is for people to find work, especially for aspiring entrepreneurs. Overly burdensome regulations and licensing laws restrict value-creating entrepreneurial activity.

7. What are the Links between Entrepreneurship, Personal Character, and Civil Society?

- Civil society refers to all the non-government institutions and associations that make up our communities. Civil society includes things like the family, religious groups, private enterprise, and charitable organizations.
- Strong personal character is essential for entrepreneurial success. Moral virtues such as ambition, integrity, courage, productiveness, and rationality translate into success in the business world. Furthermore, a free society is impossible without strong character. Entrepreneurship both demands and reinforces strong personal character.
- Humans are social creatures who need community to thrive. One reason we get so much benefit from living in society is the great diversity of skills, talents, and interests between individuals in society. If we care about preserving community, we also need to think about the unique individuals who make it up. Each person is an individual deserving of respect and dignity. The market encourages individuals to interact peaceably and build mutual trust.

8. How Do I Become an Entrepreneur?

- Entrepreneurs make money by creating value and serving the needs of others. Successful entrepreneurs are both wealth creators and problem solvers. One of the best ways to learn is through practical experience. Starting a business teaches students important life skills. Anyone can start a business. You don't have to be creative. You don't have to have the next big idea. You don't have to have a lot of money. You don't have to take on a lot of risk.

APPENDIX A – RECOMMENDED BOOKS FOR THE YOUNG ENTREPRENEUR

ECONOMICS

- Economics in One Lesson by Henry Hazlitt
- Lessons for the Young Economist by Robert Murphy
- Common Sense Economics: What Everyone Should Know about Wealth and Prosperity by James D. Gwartney, Richard L. Stroup and Dwight Lee
- Economics for Real People by Gene Callahan
- How an Economy Grows and Why it Crashes by Peter Schiff

ENTREPRENEURSHIP

- School for Startups: The Breakthrough Course for Guaranteeing Small Business Success in 90 Days or Less by Jim Beach and Chris Hanks
- The Entrepreneur Mind: 100 Essential Beliefs, Characteristics, and Habits of Elite Entrepreneurs by Kevin Johnson
- Nothing to Lose, Everything to Gain from Gangster to Multimillionaire by Ryan Blair
- The Startup Guide: Building A Better World Through Entrepreneurship by Ryan Allis
- Start Small, Finish Big: Fifteen Key Lessons to Start--and Run--your Own Successful Business by Fred DeLuca

SUCCESS

- How to Win Friends and Influence People by Dale Carnegie
- Raising Money Smart Kids: What They Need to Know about Money and How to Tell Them by Janet Bodnar
- Rich Dad Poor Dad by Robert T Kiyosaki
- Rich Dad's Rich Kid by Robert T Kiyosaki
- The Millionaire Next Door by Thomas J. Stanley and William D. Danko
- Think and Grow Rich by Napoleon Hill
- 7 Habits of Highly Effective People by Steven Covey
- Do Hard Things by Alex Harris

Council for Economic Education’s National Standards for Economics

STANDARD 1: SCARCITY - 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.

STANDARD 2: DECISION MAKING - Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something; few choices are “all or nothing” decisions.

STANDARD 3: ALLOCATION - Different methods can be used to allocate goods and services. People acting individually or collectively must choose which methods to use to allocate different kinds of goods and services.

STANDARD 4: INCENTIVES - People usually respond predictably to positive and negative incentives.

STANDARD 5: TRADE - 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.

STANDARD 6: SPECIALIZATION - When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

STANDARD 7: MARKETS AND PRICES - A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

STANDARD 8: ROLE OF PRICES - Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

STANDARD 9: COMPETITION AND MARKET STRUCTURE - Competition among sellers usually lowers costs and prices, and encourages producers to produce 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.

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

STANDARD 13: INCOME - Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce.

STANDARD 14: ENTREPRENEURSHIP - Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

STANDARD 15: ECONOMIC GROWTH - Investment in factories, machinery, new technology, and in the health, education, and training of people stimulates economic growth and can raise future standards of living.

Common Core

History/Social Studies -- Grade 9-10 - Key Ideas and Details

- RH.9-10.1 - Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- RH.9-10.2 - Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- RH.9-10.3 - Analyze in detail a series of events described in a text; determine whether earlier events caused later ones or simply preceded them.
- RH.9-10.4 - Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- RH.9-10.5 - Analyze how a text uses structure to emphasize key points or advance an explanation or analysis.
- RH.9-10.6 - Compare the point of view of two or more authors for how they treat the same or similar topics, including which details they include and emphasize in their respective accounts.
- RH.9-10.7 - Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.
- RH.9-10.8 - Assess the extent to which the reasoning and evidence in a text support the author's claims.
- RH.9-10.9 - Compare and contrast treatments of the same topic in several primary and secondary sources.
- RH.9-10.10 - By the end of grade 10, read and comprehend history/social studies texts in the grades 9-10 text complexity band independently and proficiently.

History/Social Studies -- Grade 11-12 - Key Ideas and Details

- RH.11-12.1 - Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- RH.11-12.2 - Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- RH.11-12.3 - Evaluate various explanations for actions or events and determine which explanation best accords with textual evidence, acknowledging where the text leaves matters uncertain.
- RH.11-12.4 - Determine the meaning of words and phrases as they are used in a text, including analyzing how an author uses and refines the meaning of a key term over the course of a text (e.g., how Madison defines faction in Federalist No. 10).
- RH.11-12.5 - Analyze in detail how a complex primary source is structured, including how key sentences, paragraphs, and larger portions of the text contribute to the whole.
- RH.11-12.6 - Evaluate authors' differing points of view on the same historical event or issue by assessing the authors' claims, reasoning, and evidence.
- RH.11-12.7 - Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.
- RH.11-12.8 - Evaluate an author's premises, claims, and evidence by corroborating or challenging them with other information.
- RH.11-12.9 - Integrate information from diverse sources, both primary and secondary, into a coherent understanding of an idea or event, noting discrepancies among sources.
- RH.11-12.10 - By the end of grade 12, read and comprehend history/social studies texts in the grades 11-CCR text complexity band independently and proficiently.

College and Career Readiness Anchor Standards for Language

- CCRA.L.6 - Acquire and use accurately a range of general academic and domain-specific words and phrases sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when encountering an unknown term important to comprehension or expression.

College and Career Readiness Anchor Standards for Reading

- CCRA.R.1 - Read closely to determine what the text says explicitly and to make logical inferences from it; cite specific textual evidence when writing or speaking to support conclusions drawn from the text.
- CCRA.R.3 - Analyze how and why individuals, events, or ideas develop and interact over the course of a text.
- CCRA.R.4 - Interpret words and phrases as they are used in a text, including determining technical, connotative, and figurative meanings, and analyze how specific word choices shape meaning or tone.

College and Career Readiness Anchor Standards for Speaking and Listening

- CCRA.SL.1 - Prepare for and participate effectively in a range of conversations and collaborations with diverse partners, building on others ideas and expressing their own clearly and persuasively.

GLOSSARY OF TERMS

Absolute Advantage - The ability to produce more units of a good or service than some other producer, using the same quantity of resources

Barter - Trading a good or service directly for another good or service, without using money or credit. For example, trading a pencil for a piece of paper.

Benefits - Monetary or non-monetary gain received because of an action taken or a decision made

Business - Any organization that produces or exchanges goods or services for a profit

Business Ethics – Application of moral standards that govern professional conduct

Business Model - A high-level, easy to understand description of a business idea that provides an overview of how the business functions.

Business Plan - A detailed description of an enterprise, including its name, its goals and objectives, the products sold and distributed, the work skills needed to produce these products, and the marketing strategies used to promote them

Capital - Man-made goods used in the production of other goods (e.g. machinery, tools, factories)

Character - The nature of an individual's moral personality, derived from his rooted, chosen moral values which are consistently applied and expressed by his behavior and actions.

Choice - Decision made or course of action taken when faced with a set of alternatives

Civil Society - The complex web of voluntary and familial relationships and associations found within a society; the aggregate of non-governmental organizations and institutions. Examples include the Boy and Girl Scouts, religious organizations, the Red Cross, and fraternal organizations.

Classical Liberalism - A political ideology that holds liberty as the primary political value; advocates for rule of law, civil society, private property rights, and free markets; and promotes toleration, peace, individualism, and limited government.

Comparative Advantage - The ability to produce a good or service at a lower opportunity cost than some other producer. To find people's comparative advantages, do not compare their absolute advantages. Compare their opportunity costs. For example, the best brain surgeon in town may also be the best and fastest typist in town but that doesn't mean he'll type up his own invoices; he has an absolute advantage in both brain surgery and typing but a comparative advantage only in brain surgery. For him to give up some brain surgery time to type invoices would be a very costly endeavor.

Competition - Attempts by two or more individuals or organizations to acquire the same goods, services or productive and financial resources. Consumers compete with other consumers for goods and services. Producers compete with other producers for consumers

Cooperation - The act of voluntarily working or acting together for mutual benefit

Cost - An amount that must be paid, spent, or given up in order to achieve or obtain something

Creative Destruction - The process through which the introduction of new, improved products or processes results in the obsolescence of existing ones.

Customers - People who buy goods or services from a business

Decisions at the Margin - weighing the costs and benefits of acquiring one additional (or one fewer) unit of a good or service and then deciding to acquire one additional (or one fewer) unit

Distribution Model - A business's strategy and processes of getting a product or service to the customer.

Division of Labor - An arrangement in which workers perform only one step or a few specialized steps in a larger production process

Entrepreneur - Someone who is able to discover and provide for an unmet need and in doing so, creates value for themselves and others in society

Factors of Production - Productive resources; what is required to produce the goods and services that people want; natural resources, human resources, capital goods. Some consider entrepreneurship a factor of production

Freedom - The ability to act in the absence of externally imposed restraints, obstacles, or threats, as long as one does no harm to the rights or property of others.

Gains from Trade - The net benefits to an individual, business or country from entering into voluntary trade

Incentives - Things that motivate a person to act in a certain way; they can either be positive (a reward or benefit) or negative (a punishment or harm)

Innovation - The process of devising a new idea or thing, or improving an existing idea or thing

Institutions - Set of understood regulations or principles governing conduct within a particular activity or sphere; rules of the game (e.g. laws, cultural customs, and societal norms)

Integrity - The practice of consistently acting on one's beliefs about what is true and good/right

Intrinsic Value - The value that an object has "in itself" or "for its own sake", based on its inherent properties

Invisible Hand - A figure of speech representing the idea that individuals making decisions in their own self-interest will at the same time create economic order and promote society's interests; coined by Adam Smith

Jobs - Work performed on order at an agreed-upon rate. Also a paid position of regular employment

Labor - The physical and mental human effort used in production

Labor Theory of Value - An economic theory that supposes the value of a good or service is based on the amount of labor used in its production

Land - The natural resources used in the creation of products

Loss - Financial loss or damage suffered by a person or a company

Marginal Benefit - The additional gain from consuming or producing one more unit of a good or service; can be measured in monetary or psychological gain

Marginal Cost - The increase in a producer's total cost when it increases its output by one unit

Marginal Utility - The extra value or satisfaction that a consumer obtains from consuming one additional unit of something

Market Process - The constant and ever-changing circumstances resulting from the sum of voluntary exchanges between free people

Market - The sum of voluntary exchanges between free people

Objective Value - Value that is independent of the beliefs and perceptions of an individual observer

Opportunity Cost - The value of the next-best alternative (the highest-valued option not chosen)

Positive Sum Game - A situation in which the sum of the gains and losses are greater than zero

Prices - The amount of money that people pay when they buy a good or service; the amount they receive when they sell a good or service

Profit - Revenues minus costs

Property Rights - A bundle of rights and corresponding obligations associated with control of a given resource, including; the authority to control the usage, adaptation, receipt of benefits from, exchange, and disposition of the resource.

Protectionism - Government-imposed economic barriers to free trade, such as tariffs, quotas and subsidies designed to benefit native industries/businesses

Risk - The chance of economic gain or loss in which the full range of possible outcomes are known and reasonable probabilities to the occurrence of each can be made

Scarcity - The condition that exists because human wants exceed the capacity of available resources to satisfy those wants; insufficient resources to achieve the desired ends

Shareholder - Are a company's owners. They hold "shares," or equal parts, of a company.

Specialization - When individuals, companies, or countries focus production on the things they can produce with the lowest (opportunity) costs

Spontaneous Order - A seemingly logical order that emerges in absence of the deliberate design or rational plan of anyone one person or persons. Order that emerges as individuals pursue their own self-interests and follow their own plans

Stakeholder - people with an interest, concern, or stake in the business. Stakeholders include employees, customers, suppliers, investors, and the community.

Subjective Value - Value is determined not by inherent qualities, but rather by the beliefs, preferences, and needs of an individual. Value, like beauty, is in the eye of the beholder, not in the thing itself. It's subjective and personal and often changes from one day to the next. What's of value to you may not be valuable to another.

Subsidy - Government payments to private industry designed to encourage production of a good or service. Subsidies are supposed to lower the costs of production but in practice encourage inefficient behavior and gives unfair advantages to politically connected companies

Sunk Costs - Sunk costs refer to costs incurred in the past that cannot be recovered.

Taxation - The coercive extraction of resources by government from individuals and organizations that produce value

Things Seen and Unseen - In the economic sphere an act, habit, institution or law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate, it appears simultaneously with its cause and it is seen. The other effects emerge subsequently and they are unseen

Trade - The exchange of goods or services for money or other goods and services

Tradeoffs - The giving up of one benefit or advantage in order to gain another regarded as more favorable

Unintended Consequences - The actions of people, business and government always have effects that are unanticipated or unintended

Value - The worth or usefulness of a good or service.

Virtue - Action-guiding character traits and commitments that aim at positive results; good character in action

Wealth - A measure of the value of all the assets of worth owned by a person, community, company or country

Zero Sum Game - A situation in which one person's gain is equivalent to another's loss, so the net change in wealth or benefit is zero