

## DOCUMENT RESUME

ED 326 653

CE 056 399

AUTHOR Clow, John E.; And Others  
 TITLE Economics and Entrepreneurship. Teaching Strategies. Master Curriculum Guide.  
 INSTITUTION Joint Council on Economic Education, New York, N.Y.  
 SPONS AGENCY National Federation of Independent Business, San Mateo, CA. Research and Education Foundation.; Pew Memorial Trust, Philadelphia, Pa.  
 REPORT NO ISBN-1-56183-423-8  
 PUB DATE 91  
 NOTE 188p.  
 AVAILABLE FROM Joint Council on Economic Education, 432 Park Avenue South, New York, NY 10016 (\$21.95).  
 PUB TYPE Guides - Classroom Use - Guides (For Teachers) (052)  
 -- Guides - Classroom Use - Materials (For Learner) (051)  
 EDRS PRICE MF01/PC08 Plus Postage.  
 DESCRIPTORS Behavioral Objectives; Business; Business Administration; \*Business Education; Curriculum Guides; Economic Opportunities; \*Economics; \*Economics Education; \*Entrepreneurship; Learning Activities; Lesson Plans; Secondary Education; Self Employment; Social Studies; Tests

## ABSTRACT

Designed for high school teachers of economics, social studies, and business education, this teaching package provides materials for a course that combines study of basic economic concepts with an understanding of entrepreneurship. The teacher resource manual consists of three parts. Part 1 is an overview of the relationship between economics and entrepreneurship education. Part 2 contains 17 lessons. Topics include: entrepreneurs; characteristics of entrepreneurs; human capital; scarcity; economic systems; markets; entrepreneurial innovation; interdependence of entrepreneurial activities; demand; supply; market equilibrium; profits; business organization; borrowing; competitive markets; demand for labor; and government intervention. Contents of each lesson include: time required; concepts; instructional objectives; rationale; required materials; vocabulary (terms with definitions); procedures (suggestions for adapting activities for students of different ability levels); and evaluation (tests or activities to assess students' understanding). Reduced-print pages of student activities follow each lesson. Part 3 describes instructional practices that foster entrepreneurial behavior on the part of students. A complete set of blackline masters for student activities completes the package. (YLB)

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# **MASTER CURRICULUM GUIDE**

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# *Economics and Entrepreneurship*

*TEACHING STRATEGIES*

John E. Clow  
Carolyn R. Holleran  
Calvin A. Kent  
Gary Rabbior  
Francis W. Rushing  
Alan Stafford

**Joint Council on Economic Education**

*Economics and Entrepreneurship* was funded by a grant from The Pew Charitable Trusts to The NFIB Foundation, an affiliate of the National Federation of Independent Business.

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ISBN 1-56183-423-8

5 4 3 2 1

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# Foreword

*Economics and Entrepreneurship* is the newest addition to the Joint Council on Economic Education's *Master Curriculum Guides*. The primary publications in this series are *A Framework for Teaching the Basic Concepts*, which presents the conceptual structure of economics appropriate for elementary and secondary schools, and *Economics: What and When*, which provides guidelines for the selection and sequence of economics in the curriculum. All other volumes in the series focus on specific grade levels or subject matter.

*Economics and Entrepreneurship* is designed for high school teachers of economics, social studies, business education, and other subjects. It is appropriate for teachers who wish to combine a study of basic economic concepts with an understanding of entrepreneurship. *Economics and Entrepreneurship* provides teachers with a variety of lessons and instructional approaches. The lessons can be used in the sequence presented here or can be adapted to meet the requirements of individual courses. "An Overview of Entrepreneurship in Economics" by Calvin A. Kent and Francis W. Rushing is an excellent analysis of how entrepreneurship can be effectively integrated into economics. The volume ends with "The Enterprising Teacher" by Gary Rabbior and Francis W. Rushing. That section shows how teachers can use entrepreneurial skills in exciting, effective teaching of entrepreneurship and economics.

*Economics and Entrepreneurship* was funded by a grant from The Pew Charitable Trusts to The NFIB Foundation, an affiliate of the National Federation of Independent Business. We appreciate their confidence and assistance.

Much of the work included in this volume originated as part of the Economics & Entrepreneurship Education program in the Philadelphia schools. That project was funded by The Pew Charitable Trusts, The Sears-Roebuck Foundation, ARCO Chemical Company, Allstate Foundation, Barra Foundation, Bell of Pennsylvania, Chevron U.S.A., Inc., Conrail, Rouse and Associates, Sun Refining and Marketing Company, Tasty Baking Foundation, and the Quaker Chemical Foundation.

*Economics and Entrepreneurship* adds a new dimension to the *Master Curriculum Guides*. We think the volume will assist teachers in combining entrepreneurship and economics in a truly exciting way.

Stephen Buckles  
President  
Joint Council on Economic Education

# Preface

The *Master Curriculum Guide* series is designed to assist school systems with the development of economics curricula for grades K-12. It consists of (1) *A Framework for Teaching the Basic Concepts*, (2) *Economics: What and When, Scope and Sequence Guidelines, K-12*, and (3) a series of volumes, each containing detailed classroom lessons that illustrate how the basic economic concepts and understandings can be taught at different grade levels and in different subject areas.

In addition to its use as a resource for curriculum planning, the series can be used by individual elementary and secondary school teachers for planning classroom instruction. Similarly, it may serve as a resource for providers of preservice and in-service teacher education programs in economics.

*Economics and Entrepreneurship* is the most recent addition to the twelve volume series. It contains (1) an overview of the relationship between economics and entrepreneurship education, (2) seventeen complete and self-contained lessons, each focusing on economic concepts that are essential to an understanding of entrepreneurship and its role in the American economy, and (3) a description of instructional practices that foster entrepreneurial behavior on the part of students.

Users of previous volumes in the series will find that the lessons in *Economics and Entrepreneurship* contain several new features: definitions of economic terms, suggestions for adapting activities for students of different ability levels, and end-of-lesson tests and/or activities for assessing students' understanding of important economic concepts and their applications for the analysis of entrepreneurial enterprises. Reduced pages of student activities and answer keys follow each lesson.

The lessons can be easily incorporated in a variety of courses and curriculum areas. They can be used to supplement units of study in economics, business education, history, and other courses that examine how entrepreneurial ventures affect and are affected by other aspects of our economy.

June V. Gilliard  
Curriculum Director

# Acknowledgments

Many people were involved in the preparation of materials for *Economics and Entrepreneurship*. The Joint Council is indebted to Francis W. Rushing, Calvin A. Kent, and Gary Rabbior for their work in preparing the overview and the conceptual basis for the volume. We are also indebted to John E. Clow, Carolyn R. Holleran, and Alan Stafford for their creative work in revising lessons taken from the Economics and Entrepreneurship Education (E<sup>3</sup>) project and for the development of many new and exciting classroom materials. Our thanks to Irwin Rubin, Associate Director of the E<sup>3</sup> Project, for his help in adapting lessons originally prepared for the project to the MCG format.

We wish to express our appreciation to: Jan Bishop, Field Representative for the Pennsylvania Council, for

her help in locating material for several of the biographical sketches included in Lesson 1; members of the Joint Council Publications Committee who gave generously of their time to review the materials developed for the publication; Jane Merdic, Coordinator of Vocational, Technical, and Adult Education for the Kansas City Schools, Jean Jagodzinski, Coordinator of Business Education for the Baltimore County Public Schools, and our affiliated councils in Idaho, Kentucky, Maryland, Pennsylvania, and South Carolina for their assistance in identifying teachers for the pilot program.

A special thanks to our pilot teachers and their school systems for their help in evaluating the instructional materials contained in *Economics and Entrepreneurship*.

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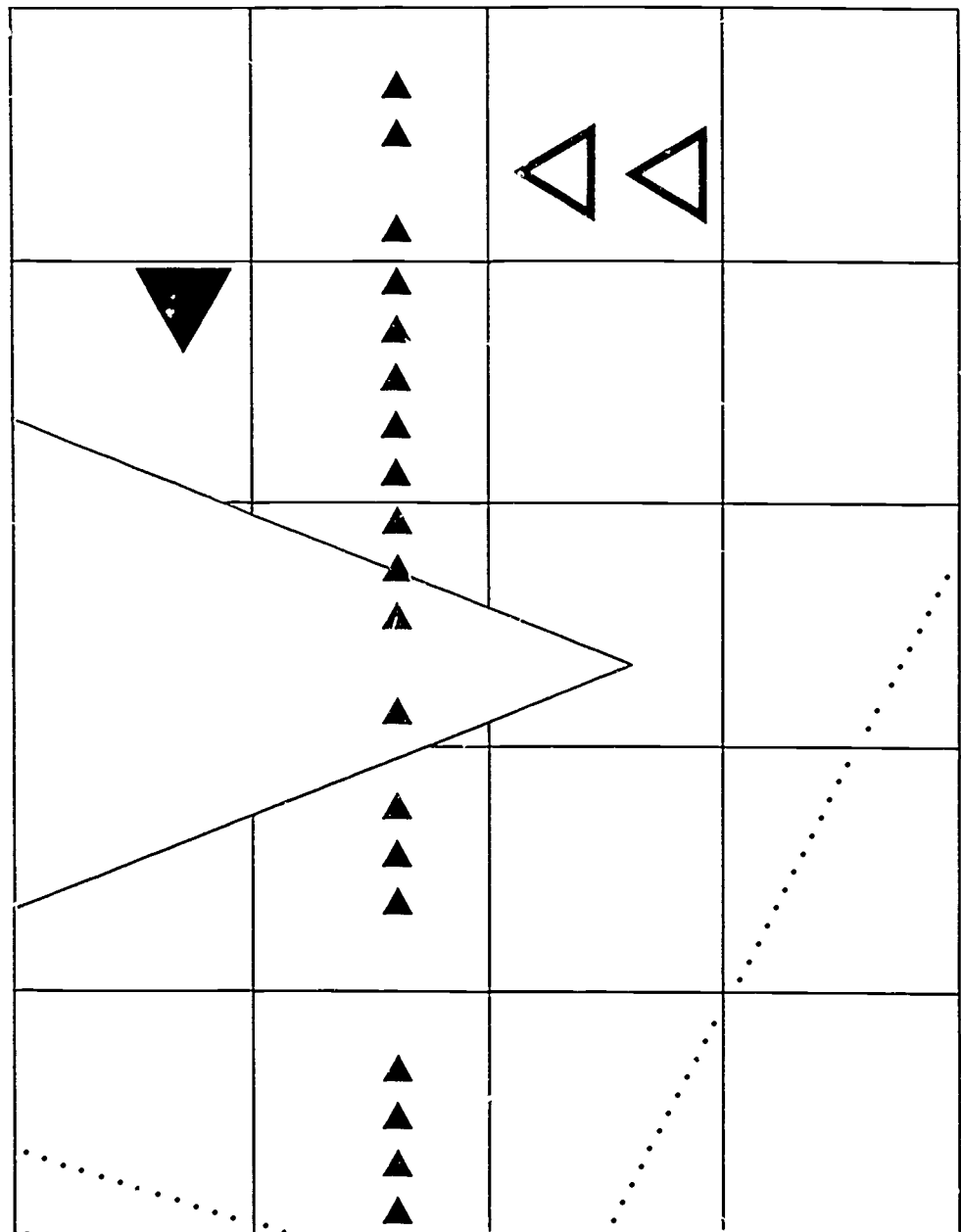
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# PART 1

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# INTRODUCTION



# AN OVERVIEW OF ENTREPRENEURSHIP IN ECONOMICS

## INTRODUCTION

Education is facing new challenges as we approach a new century. During the past ten years, the United States has witnessed the rapid development of the world economy and the increasing pace of change in the domestic economy. These changes have mandated new approaches to teaching students how to cope successfully with an uncertain future. Educators are now beginning to design approaches to effectively develop within our youth *enterprise skills* that will prepare them for the 21st century. Enterprise skills encompass those personal dispositions, abilities, and competencies related to creativity, initiative, problem solving, flexibility, and adaptability. These skills will also require the taking and discharging of responsibility as well as knowing how to learn and relearn.

The overall rationale for developing enterprise skills is to enable youth to cope with and adjust to the manifold changes affecting every aspect of their lives, including work, leisure, social life, community affairs, and family. Students should see change as the norm to which they must adapt and indeed to which many will contribute in its direction and pace. Changes are affecting all of our nation's institutions—business enterprises, government, social organizations, and education. Businesses are moving away from old forms of organizations with their rigid functions and manager-employee hierarchies to more fluid forms that require more individual responsibilities as well as skills. Our educational institutions must respond, indeed take the lead, in developing enterprise skills during the pre-college learning experiences of American youth.

The goal of our educational system should be to help individuals to become enterprising individuals. Such individuals have been described thus:

An enterprising individual has a positive, flexible and adaptable disposition towards change, seeing it as normal, and as an opportunity rather than a problem. To see change in this way, an enterprising individual has a security borne of self-confidence, and is at ease when dealing with insecurity, risk, difficulty, and the unknown. An enterprising individual has the capacity to initiate creative ideas, develop them, either individually or in collaboration with others, and see them through. An enterprising individual is able, even anxious, to take responsibility, and is an effective communicator, negotiator, influencer, planner, and organizer. An enterprising individual is active, confident and purposeful, not passive, uncertain and dependent.<sup>1</sup>

An important part of the development of an enterprising individual is learning economic concepts and developing entrepreneurial skills and seeing how these skills and concepts apply to one's life. Economics and entrepreneurial education comprise a unique blend of competencies and methods of problem solving for creating change and dealing with its consequences. Economics and entrepreneurial education do not have as their sole objective the creation of entrepreneurs but rather the enhancement of creativity, adaptability, the development of self-confidence, and the determination to achieve the goals one has established for oneself. Learning how the economy works and how the individual fits into it is a critical prerequisite to achieving personal

<sup>1</sup>*The Social and Economic Integration of Young People*. Center for Educational Research and Innovation, Organization for Economic Co-operation and Development, Paris, April 1988, p. 33.

goals. Learning about how the entrepreneur is an agent of change within the economic system focuses on how enterprise skills are applied by one segment of our population—the entrepreneur. The student will come to understand that, although entrepreneurship is an achievable occupational objective, many of us may not choose it. However, all of us can make important contributions to society and the economy by practicing our enterprise skills. We may not all be entrepreneurs but we can all be enterprising and thereby enjoy our own professional and personal successes.

The remainder of this section discusses entrepreneurship as an integral part of economics and how it can be effectively integrated into a variety of lessons in micro and macroeconomics. First is a discussion of what entrepreneurship is and what forms entrepreneurship takes. Second, this section demonstrates how the process of entrepreneurship should be integrated into both the micro and macro dimensions of economic theory and practice. The section concludes with a discussion of how entrepreneurship could be included in a variety of high school courses.

### WHAT IS ENTREPRENEURSHIP?

Until a few years ago, very few people had heard the word entrepreneur, much less understood what it meant. To some, entrepreneurs were persons who began their own business; to others, entrepreneurs were speculators who took risks with other people's and their own monies. Still to others, the entrepreneur was the manager who coordinated the enterprise. There is an element of truth in each of these ideas, but each is too narrow and restricted.

Entrepreneurs are the change agents who bring material progress to humankind. This statement is as true today as it has been in any past period or for any past society. Someone has to be the catalyst that challenges the present and creates the future. That individual is the entrepreneur.

The best definition of an entrepreneur is "one who sees what others have overlooked and acts on that in sight." The essential characteristics of an entrepreneur are vision and courage. Entrepreneurs are essentially niche finders, seeing an opportunity and seizing that opportunity by implementing a new idea, process, or technology. Entrepreneurship, in the broadest sense, refers to all innovative and creative endeavors, whether they result in the formation of a new business, the reorganization of an existing enterprise, the discovery of a new technology, or the development of a solution to some social or political problem.

There are five specific things that entrepreneurs do.

1. *Entrepreneurs introduce a new good or service into the marketplace.* Well over half of all the products consumed in America today were not available as recently

as 20 years ago. It takes only a moment's reflection or a glance around an American home to see CD players, microwave ovens, home computers, and stainproof carpets. Behind every one of these new ideas were people who saw consumer need that was unsatisfied and they had the idea of how that need was to be met. They mobilized the resources and took the risks of bringing that product to the marketplace, knowing full well that if they guessed right, they would be rewarded and if they guessed wrong, they would fail.

2. *Entrepreneurs discover new resources or new uses for old resources.* Early in the economic history of this nation, entrepreneurs went West seeking fertile land and the mineral wealth that lay beneath it. They overcame the obstacles to bring the riches of the earth to the marketplace. There is truth in the adage "resources do not exist, they become" as people discover ways to use previously worthless material. That is the function of the entrepreneur. In this day, the entrepreneur does more than just discover new resources, such as additional supplies of oil, natural gas, and scarce minerals. There are tremendous opportunities available to entrepreneurs who will discover how to put old resources to new uses, such as recycling waste and developing renewable sources of energy.

3. *Entrepreneurs develop new technologies.* Since the founding of the nation, the United States has been blessed with a constant stream of new and improved tools that have made us more productive and eased the burden of our work. The progress of our nation depends on the flow of new technological innovations. It is the entrepreneur who has the ideas for the new innovations and does what is necessary to develop them and bring them to the marketplace.

4. *Entrepreneurs open new markets.* The earliest explorers were entrepreneurial. They ventured forth to trade the goods of their nations for the treasures of faraway lands. In our own day we have seen new markets develop in health care and financial services. Entrepreneurs see new markets before they exist and then create them.

5. *Entrepreneurs reorganize existing enterprises.* Any enterprise that remains unchanged and static is one that will become quickly obsolete and unproductive. Entrepreneurs see better ways of doing things by cutting costs and improving efficiency. Henry Ford reorganized the auto industry, Andrew Carnegie, the steel industry, and Ray Kroc, the food industry. Many authorities have suggested that American competitiveness in the world will not be restored until American business is reorganized by entrepreneurs who will restructure industries so that enterprising innovation is encouraged and rewarded.

## WHAT FORMS DOES ENTREPRENEURSHIP TAKE?

Entrepreneurship takes three forms:

1. *Venture initiation.* Venture initiation is the starting of a new business. In the United States, over a half-million new businesses are begun each year. While some of these fail, many are successful and some even grow into the next generation of industrial giants. Often entrepreneurship is associated with starting a new business. While important, that is not the only form that entrepreneurial endeavor can take.

2. *Intrapreneurship.* This is a new term that refers to being entrepreneurial within an existing business or other organization. Here the entrepreneur is an employee who sees ways in which the organization's product could be improved, its distribution system made more efficient, or how a new marketing strategy could increase sales. The intrapreneur may also see how management or production needs to be reorganized or how a new system of accounting or data processing could cut costs or improve efficiency. Intrapreneurship challenges the rigid structure of many corporations. It requires that employees be given the freedom and incentive to create change.

3. *Public entrepreneurship.* This term refers to innovative activity within a nonprofit organization, including government. There are literally hundreds of social problems in society today that are crying out for solutions. Many of these solutions will come from government agencies or the nonprofit sector of our economy. As people grapple with the crises of energy, drugs, homelessness, urban decay, crime, and poverty, there will need to be entrepreneurs who will supply the answers for these problems. Old approaches have failed, and merely spending more money will not solve the problems.

## WHAT MAKES ENTREPRENEURS DIFFERENT?

Entrepreneurs are different from other people because of their psychological makeup. While many people think that the entrepreneur's sole motive is to make money, this is not true. The three things that separate entrepreneurs from others are (1) the desire to be independent, (2) a high need for achievement, and (3) a willingness to take risks.

Entrepreneurs are "can-do" people. Psychologists say they have "inner control." They are willing to take responsibility for their mistakes as well as credit for their achievements. They never view failure as the end but as a learning experience upon which they can base their future success. Many entrepreneurs have failed more than once before they were successful, but they

possess an indomitable spirit that forces them to try again.

## ECONOMICS AND ENTREPRENEURSHIP

Entrepreneurship needs to be integrated into the entire economics curriculum. Often entrepreneurship is a neglected concept in basic economics. As a result, the student goes away with an incomplete understanding of the dynamics of a market economy. In addition, the student is deprived of those insights that make economics not only more stimulating but more enjoyable as well.

## MICROECONOMIC CONCEPTS

Microeconomics is the study of markets and how producers and consumers participate in those markets. When consumers and producers voluntarily engage in exchange in markets, both leave the market having gained from the trade. When microeconomics is taught, there are three major concepts concerning entrepreneurship that should be thoroughly integrated.

1. *Entrepreneurship is a separate factor of production.* Most economics textbooks list three factors of production: land, labor, and capital (productive tools). Many years ago, a fourth factor, entrepreneurship, was almost always included in the list.

The entrepreneur performs a function in the economy that is unique and cannot be described by any of the other three factors. The entrepreneur is more than labor or human capital because the entrepreneur does more than just apply muscle or mental power to the production of goods and services. Entrepreneurs do those things that other laborers do not; they have perceptions and act upon them.

The entrepreneur should not be viewed as merely a manager, combining the other three factors of production and supervising them during the production period. While entrepreneurs may also be managers, entrepreneurs differ from managers because of entrepreneurial perception and risk taking.

2. *The role of profits in entrepreneurship.* Perhaps the most misunderstood concept among the public is the role of profit in the economy. Economic analysis sees profit as an incentive. Individuals respond to price signals in the market to maximize the profits of their enterprises or the pleasure of their consumption.

Those businesses that correctly respond to price signals are rewarded with higher profits. If society wants more of a product, individuals cast their dollar votes in the marketplace and production will rise. If society wants a resource to be conserved, its price will rise and production will use less. By doing what society wants and responding to price signals, producers make profits.



Profit is also a reward for risk taking. Someone has to anticipate what new products consumers may want, what new technologies will work by lowering production costs, and what reorganizations will result in increased efficiency. Those who successfully perceive these opportunities for new products, new technologies, or new organization will also receive profits.

Profits are not the entrepreneur's sole motivation. Research shows that entrepreneurs are motivated primarily by a desire for independence and a need for achievement. Traditional microeconomic models that assume profit-maximizing behavior do not properly explain the dynamics of the entrepreneur.

3. *Entrepreneurs and markets.* Economic analysis focuses on the operation of supply and demand. The demand curve slopes downward and to the right, reflecting the fact that as prices fall, consumers will buy more. The supply curve slopes upward and to the right, indicating that producers put more on the market at higher prices. Equilibrium is established where the two curves intersect. This analysis assumes the existence of both a supply curve and a demand curve. But where do these curves come from and who or what creates them?

The entrepreneur does not see an existing demand curve. What the entrepreneur sees is opportunity. The entrepreneur creates demand by anticipating what it is that consumers want before the consumer is even aware of that want. Entrepreneurs are in the process of creating demand, not just responding to changes in prices or in the determinants of demand for a product or service that is already on the market.

Neither does the entrepreneur see a fixed supply curve. The entrepreneur does more than respond to changes in the costs of inputs and other factors of production. The entrepreneur develops new technologies and organizations that create a new supply curve which did not exist before the entrepreneurial activity took place.

## MACROECONOMIC CONCEPTS

Just as entrepreneurial behavior needs to be integrated into microeconomics, understanding entrepreneurship expands an understanding of macroeconomic concepts as well. Macroeconomics is concerned with how the economy as a whole functions: What causes unemployment and inflation? Why does the gross national product of a nation grow or decline? What causes interest rates to fall or rise? Economic analysis focuses on aggregate supply and demand as the determinants of the level of national income and of prices. Aggregate supply and demand can be better understood when the role of the entrepreneur is included in these discussions.

1. *Entrepreneurship and innovation.* Where does innovation come from? Innovation is the process of de-

veloping new products, new technologies, or developing a different organization of the productive process. The result of innovation is always the same: to increase investment opportunities within the economy. Innovation, by stimulating investment, increases total demand, thus raising both the amount of output and the level of employment.

The entrepreneur is the innovator creating investment opportunities throughout the economy that accelerate economic growth. The innovative entrepreneur then is the central figure in macroeconomics.

Throughout history, innovation has opened up broad vistas of new investment opportunities. Henry Ford devised the assembly line and, coupled with interchangeable parts, lowered the price of automobiles so they could be purchased by the average American. This innovative activity created new investment opportunities in steel, rubber, paint, petroleum, and plastics, as well as road construction and tourism.

Not all entrepreneurial innovations are quite as dramatic as those of Henry Ford. Innovation must be seen as a process of small steps whereby existing goods and services are improved and upgraded to better satisfy consumer tastes. Technologies are modified slightly to increase efficiency, or organizations are partly restructured to increase productivity. While there are few of what are called "mega" innovations, most innovative activity should be viewed as a series of small steps that result in economic growth.

The process of innovation requires three steps:

a. *Conceptualization.* Seeing a need and having an idea for a product, service, or technology to meet that need.

b. *Perfection.* The idea then must be developed and tested for its feasibility and whether or not a market actually exists that will justify the costs of bringing the innovation to the marketplace. This is the longest and most frustrating part of the entrepreneurial process. Thomas Edison experienced over 2000 failures before he perfected the electric light bulb.

c. *Commercialization.* To have a good idea is only the beginning of the entrepreneurial process. The idea must be converted to a product or a service, taken to a market, and effectively distributed and sold. Each stage requires entrepreneurial behavior.

2. *Entrepreneurship in macroeconomics and employment.* Unemployment in the economy is due to people changing jobs, the mismatch between available jobs and workers' skills, and inadequate total demand to create jobs in the economy for all who want them. The problem of unemployment in the economy is dealt with by stimulating total demand. The government can

do this by monetary policy (increasing the money supply) and/or fiscal policy (lowering taxes or expanding government purchases). The assumption is that if demand can be pushed high enough by government intervention or if interest rates can be forced low enough, then full employment will result.

This analysis overlooks the role of the entrepreneur and the psychology of investment. John Maynard Keynes in his seminal work in economics, *The General Theory of Employment, Interest and Money*, stressed the importance of the psychology of the entrepreneur in innovation and investment. Should entrepreneurs be pessimistic about the future of the economy, it is less likely they will develop the innovations and make the investments in those innovations that could stimulate the economy. On the other hand, should optimism pervade the entrepreneurial community, then innovation and investment will be undertaken.

3. *Entrepreneurs and economic growth.* Economic growth is generally defined as an increase in the per capita income of a country. Such growth can be the result of the discovery of new resources or increased efficiency in the use of already available resources. Both of these events require entrepreneurial activity. It will be an entrepreneur who will discover the new resources or will increase the efficiency in the use of the known resources.

Another source of economic growth is investment in human capital. This can be in the form of education, health services, the eradication of discrimination and other barriers to mobility. Entrepreneurial innovation develops new ways of educating and training the work force and devises new methods of health care delivery. There is also a need for entrepreneurs to seek solutions for the remaining vestiges of discrimination that still pervade society.

The third source of economic growth is capital accumulation, which consists of supplying the labor force with more and better tools (or capital) with which they can work. The reason this nation, or any other nation, prospers is because of the tools that its work force has available. The entrepreneur is the one who supplies the work force with its capital and continually upgrades the quality of that capital.

Entrepreneurs then, can be viewed as the change agents, or catalysts, who bring about economic growth. A full understanding of the dynamics of economic growth requires the inclusion of the entrepreneur.

## **TEACHING ENTREPRENEURSHIP IN COURSES IN SECONDARY SCHOOLS**

Where should entrepreneurship be introduced and taught in the high school curriculum? As could be expected, there are several courses and levels into which entrepreneurship can be integrated. While a full unit

on entrepreneurship could be taught as a stand-alone, independent course of study, this is not the only approach, or necessarily the most effective. Even if a free-standing course is provided in the curriculum, its effectiveness will be enhanced if entrepreneurial insights are provided throughout the entire curriculum. If entrepreneurship education is isolated in a single course, apart from the whole curriculum, it may be missed by many students who then would not profit from their potential development as enterprising individuals.

*Economics.* The discussion above has outlined some of the key entrepreneurial concepts that should be integrated into the typical economics course. Illustrations of how these concepts might be taught are contained in the lesson plans in Part 2 of this *Master Curriculum Guide*. Placing entrepreneurial concepts and the entrepreneur into the standard economics course not only makes the course more reflective of the real world, but it also can help to improve students' comprehension and enjoyment of the economics course.

*Business education.* Perhaps the next most obvious place where entrepreneurship should be included is in the high school business education curriculum. In addition to the creative and enterprising attributes, the business education course will introduce the financial and human management skills that are necessary for the formation and survival of a new enterprise. The business education course should also have the students think of themselves as employers rather than employees in the market system. This view will enable the business student to identify with the important issues with which the entrepreneur must grapple as part of the development of a business plan. These issues include new products, process innovation, employee training and management, financing the enterprise, and assessment of the marketplace. The desired outcomes of the business education course should include the students' ability to deal with the unknown in an enterprising way.

*Government.* The action of government in creating and limiting the environment for entrepreneurship should be included in courses of high school government. Government regulations and taxes have an impact on the entrepreneurial environment. Regulation is a burden for all businesses, but more especially for small entrepreneurial ones that generally have less ability to bear the costs of compliance.

Comparative studies should be undertaken about the role of entrepreneurs under alternative political systems. Why has there been a movement toward the free market in command societies? To what extent is the existence of one kind of liberty essential for the presence of the other? Can government bureaucrats be entrepreneurial? These are just a few of the questions that might

be posed in a government class with entrepreneurial content.

*Psychology.* A course in psychology is an excellent place for students to understand the psychological characteristics of the entrepreneur and to assess their own characteristics and capacities to be entrepreneurial. A psychology course that allows students to develop their own concepts of self-worth and inner control would be a welcome addition to the process of entrepreneurship education.

*Sociology.* The study of the sociology of entrepreneurship is in its infancy, but there are several ideas that are consistent with the thrust of entrepreneurship education. Students should realize that entrepreneurs shape and are shaped by the culture in which they live. Why do some ethnic groups seem to be more entrepreneurial than others? How does entrepreneurship permit minority groups to enter the economic and social mainstream? These are but two of the myriad questions that link entrepreneurship and sociology, and high school courses can now begin to explore them.

*History.* History courses are a natural place within the curriculum to discuss how entrepreneurs have helped determine the course of human events. History courses too often focus on politicians, rulers, and military leaders. History teachers can do a great deal to expand the horizons of their students by focusing on case studies of entrepreneurs who have contributed to the betterment of humankind. Case studies are particularly valuable if a variety of alternative stories are included that allow the students to relate to entrepreneurs of their same race and/or gender. Entrepreneurial history can help students understand that most progress is made in small steps. While the "mega" innovations are important, progress really happens as ideas are adapted and refined. The cumulative process of improving and changing old ideas in an incremental way to better satisfy consumer or producer needs is the form most entrepreneurial activity takes and in so doing makes history.

*Science.* Entrepreneurship can also be a thread woven into the fabric of science courses. Since technological advance often begins with scientific insight and continues because of entrepreneurial persistence, students should understand the relation between scientific discovery and entrepreneurship. Many of the great scientists were also entrepreneurs. They not only invented the product or technology but also brought it to the marketplace. Students should understand these relationships between the laboratory and the market.

*Vocational/technical education.* For many years, entrepreneurship has been an integral part of many vocational/technical programs. The majority of American high school students are enrolled in some vocational/technical course or program. These offerings present an excellent opportunity for the spreading of entrepreneurship education over a significant number of students.

The focus of entrepreneurship education in the vocational/technical curriculum has been narrow and limited to the teaching of skills needed to start and sustain a small business, but most vocational/technical programs contain at least a module on *basic economics*. In this module the links between the market and the entrepreneur need to be stressed. The curriculum should be broadened beyond skills training to include an understanding of how employees can be enterprising as well as units on the nurturing of entrepreneurial traits and characteristics.

## CONCLUSION

Those who design secondary school curricula should make sure that entrepreneurship has its place in economics, business education, history, science, psychology, sociology, and vocational/technical education. Entrepreneurship is neither a separate nor an alien concept, but one that can enrich the students' understanding of a variety of subjects in the regular curriculum. Perhaps more important, the study of entrepreneurs and entrepreneurship can demonstrate how enterprising behavior can have a positive impact on society. Entrepreneurs are good models for students to emulate.

**Economics and Entrepreneurship and A Framework for Teaching the Basic Concepts**

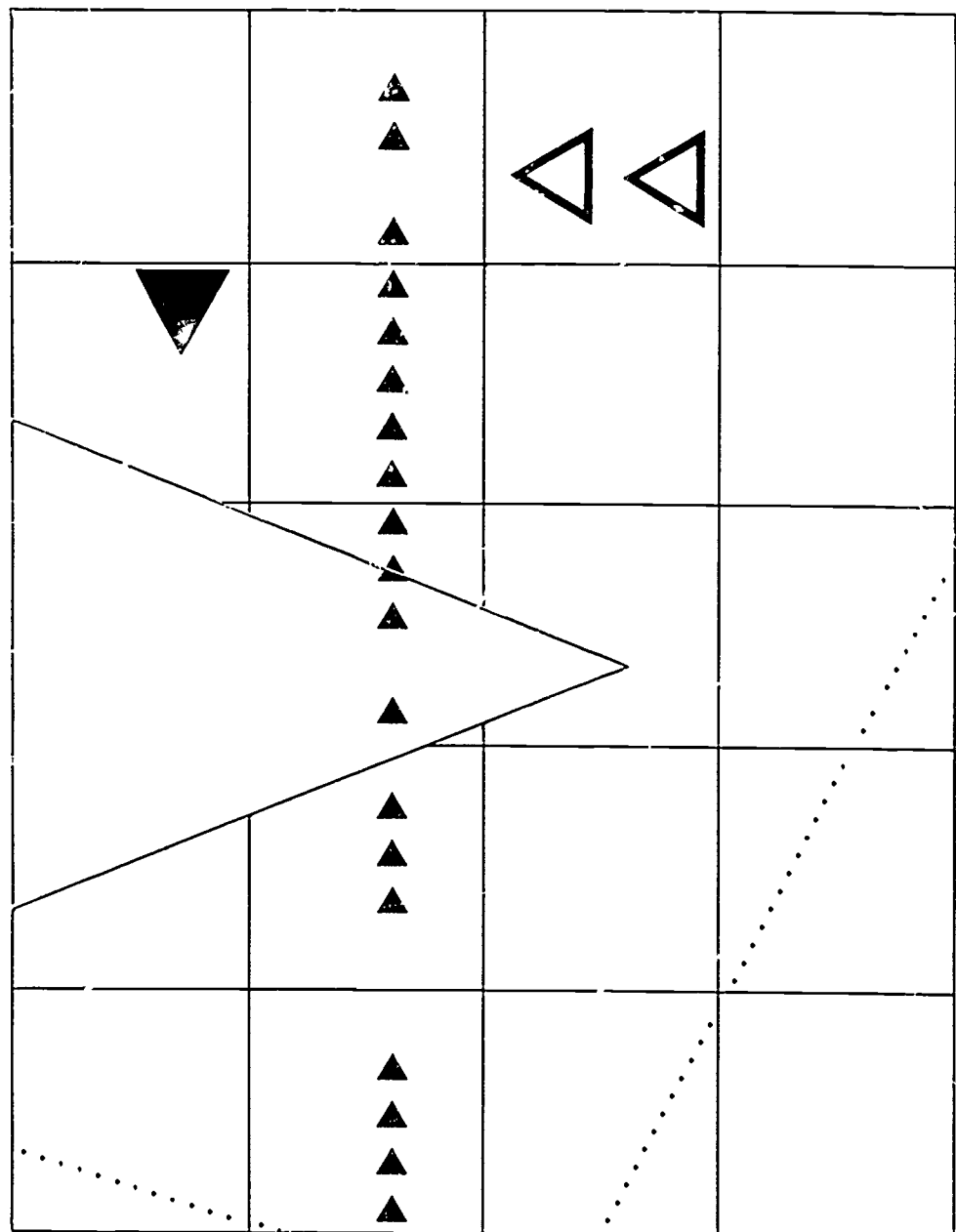
Framework Concepts	Lessons in this volume																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
1. Scarcity		•	•	•			•	•									•	
2. Opportunity Cost and Trade-offs			•	•													•	
3. Productivity														•				
4. Economic Systems					•													
5. Economic Institutions and Incentives												•	•					
6. Interdependence								•										
7. Markets and Prices						•					•							
8. Supply and Demand									•	•	•							
9. Competition and Market Structure					•											•		
10. Market Failures																	•	
11. Role of Government																	•	



# PART 2

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# LESSONS



*Please note: reduced pages of student activities and answer keys follow each lesson.*

# LESSON 1

## *Entrepreneurs—then and now*

### **TIME REQUIRED:**

One Class Period

### **CONCEPTS:**

Entrepreneur  
Enterprise

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Define entrepreneur and give examples of outstanding entrepreneurs in American economic history
- Compile a list of characteristics and traits common to successful entrepreneurs
- Identify and discuss contributions entrepreneurs make to improve the quality of life for everyone

### **RATIONALE:**

The American free enterprise economic system encourages individuals to take the risk of starting new businesses. A recent study indicates that approximately 8,000 new businesses are started every week in the United States.

Our country's economic growth is directly linked to its entrepreneurial activity. Individuals see a need in the marketplace to introduce a new product, a service, or a technology. Based on their perception of that need, these individuals start a new business.

This economic activity benefits everyone's quality of life. New businesses introduce new products into the marketplace that make our lives easier, give us more leisure time, improve our health, offer us more choices, and usually create jobs.

By studying successful entrepreneurs, we can understand the relationship of their contributions to our coun-

try's economic growth and to our ever improving standard of living. We are also able to recognize skills and traits common to successful entrepreneurs.

### **MATERIALS:**

- Examples of new products
- Activity 1 "Entrepreneurs—then and now"

### **VOCABULARY:**

**Entrepreneur** an individual who recognizes opportunities (wants or problems) and uses resources to implement innovative ideas for new, thoughtfully planned ventures

### **PROCEDURES:**

1. Display on a table in the classroom approximately 10 new products with which students would probably be familiar.

Examples:

Velcro	Post-it Notes
Compact Disc	Nintendo Game System
Microwaveable Food	Disposable Camera
Car Telephone	Pizza Delivery Service
Corian Countertop Sample	Discovery Credit Card
Reusable Cold Compress (Refrigerator type)	

In cases where you cannot obtain the product, display advertisements or pictures of it.

2. Discuss these products with students.
  - a. Do they have any common characteristics?
  - b. How do they improve our lives?
  - c. How do they benefit society?

3. Encourage students to suggest other new products with which they are familiar. Introduce the concept of economic goods and services. Discuss the introduction of new service products as new businesses as well.
4. Discuss the concept of *entrepreneurship* with students. The word was introduced by the French economist J. B. Say in 1803. It means "to undertake"; someone who starts his or her own new business.
5. Ask a student to go to the chalkboard. Encourage other students to call out products and individuals associated with them. Examples:  
Car—Henry Ford  
Fried chicken—Colonel Sanders  
Apple computer—Steve Jobs
6. Discuss the relationship of these products to starting entire industries—automobiles, fast food, personal computers, etc.
7. Distribute to each student one of the stories provided in Activity 1 about an entrepreneur from American history. (You may wish to substitute other stories, particularly stories about entrepreneurs in your community or region.)
8. Ask each student to read the story and be prepared to:
  - a. identify and describe the product or products the entrepreneur introduced to the marketplace
  - b. discuss any unique characteristics of the entrepreneur and/or the product and business
  - c. list any benefits to society contributed by the product and business
9. Divide the class into small groups. Each of the students in the group should have a story about a different entrepreneur. Have each student share with his or her group the assignment as described in procedure 8 above.
10. After each group has learned about the individuals portrayed in their assignment, ask the students to compile a list of strengths, special traits, and characteristics of the successful entrepreneurs. Request each group to appoint a group member to record their findings.
11. After the groups are finished with this activity, ask the recorders to share their conclusions with the group. The teacher or a student should assemble the class list on the board for discussion and review. Leave the list on the board if you plan to conduct Lesson 2.

## ACTIVITY 1 • PART A

### *Entrepreneurs—then and now* *Benjamin Franklin* 1706–1790

Benjamin Franklin was one of 17 children of a poor but honest candlemaker in Boston. There was not enough money to allow him to go to school so he became an apprentice printer to his brother. This was an unhappy relationship because, like many brothers, they agreed on little and did not work well together. While a teenager, Franklin ran away and eventually went to England where he perfected his skills as a printer.

He returned to the United States and was recognized as one of the most skilled printers in the colonies. He moved to Philadelphia in the late 1720s. He found it was difficult to become established as a printer in Philadelphia because there was a large number of other printers already in business. The only way he could succeed was to do it better. He started a new newspaper, *The Pennsylvania Gazette*. What made his paper a success was that it included many entertaining and clever sayings, as well as being written in a light and sometimes comical fashion.

But by far Franklin's most profitable enterprise was *Poor Richard's Almanack*, which he published annually between 1732 and 1751. What made *Poor Richard's Almanack* unique was that it was "a book for every member of the family." It included recipes, poetry, historical dates, maps, and the times of the court seasons. For parents, the almanack was arranged so that they could

use it to teach their children the alphabet and how to read. The sales of *Poor Richard's Almanack* ultimately reached 10,000 copies a year—second only to the Bible in the colonies.

Franklin was also the first person to believe in newspaper advertising. He recognized that the price of newspapers to the public could be kept down if part of the cost was picked up by advertisers. But he could not convince other businesses to advertise in his newspaper. So he began by advertising an invention of his own, the Franklin stove. The stove was an ingenious device that was a superior way of heating cold and drafty colonial homes. Sales of his stove boomed due to advertising.

Other colonial merchants began to advertise, too. In addition to being a shrewd businessman, Franklin was also a great inventor. In fact, only Thomas Edison has more inventions to his credit than does Benjamin Franklin. He experimented with electricity. He invented bifocal glasses. He devised a variety of medicines.

Franklin became one of America's greatest statesmen. He was also a great philanthropist. It was said of him that his life contained the unique elements that are identified in the American business success story: ambition, creative enterprise, self-education, research and invention, community service, and philanthropy.

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## ACTIVITY 1 • PART B

### *Entrepreneurs—then and now* *Milton Bradley* 1836–1911

#### *Milton Bradley Games*

When Abraham Lincoln first grew a beard during the 1860 presidential campaign, it almost spelled financial ruin for a young Massachusetts biographer named Milton Bradley.

The owner of a Springfield print shop, Bradley had been cashing in on the upcoming election by reproducing a portrait that showed the Republican candidate with a hairless chin. When Lincoln suddenly rendered the likeness obsolete, Bradley was forced to destroy several hundred thousand prints. This put the biographer on the razor's edge of bankruptcy, until a friend suggested that he try inventing a board game, which he could then

print with his idle press.

Bradley followed his friend's advice and came up with the *Checkered Game of Life*, a contest in which players raced up points by landing on squares with words like *Truth and Honor* while avoiding ones with *Ruin and Intemperance*. Peddling the game personally throughout New York and New England, Bradley sold 45,000 copies the first year. Shortly thereafter he became the top game manufacturer in the United States, a multimillionaire and—undoubtedly—one of the biggest fans of Abe Lincoln's beard.

Source: Fernald, J. & B. *Entrepreneurship: The Men and Women Behind Famous Brands, Games and How They Made It*. G. K. Hall & Co. © 1986. Reprinted with the permission of G. K. Hall & Co., Boston.

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## ACTIVITY 1 • PART C

*Entrepreneurs—then and now*

*Maurice McDonald*

1902–1971

*Richard McDonald*

1909–

### *McDonald's Hamburgers*

Brothers Maurice and Richard McDonald left their New Hampshire village of Bedford for Hollywood in 1923 with dreams of becoming actors.

It wasn't on theater marquees, however, but under the golden arches of a San Bernardino kiosk-type restaurant that the two would later see their names on signs. After failing to make it as actors, the McDonalds ran several businesses, including a movie theater, before opening their hamburger stand in 1948. Unlike similar restaurants that prepared food to order, the McDonalds' stand served precooked, ready-to-go hamburgers for 15¢.

In 1964 their business caught the attention of Ray

Kroc (1902–1984), a former big-band pianist who was then working as a sales agent for a milkshake mixer firm. Kroc convinced the brothers to allow him to sell the McDonalds' name and concept to other restaurant operators.

There were some 300 McDonald's franchises by 1961, when Kroc bought out the brothers (who then retired) for \$2.7 million.

Although this sum would seem small compared to the company's eventual success, the brothers remained philosophical. "We didn't know if this was just a fad that would peter out," Richard McDonald recalled in 1983, "but I have no regrets."

Source: Parry, J. A. S. *Entrepreneurship: The Key and Women Behind Famous Brand Names and How They Made It*. G. K. Hall & Co. © 1983. Reprinted with the permission of G. K. Hall & Co., Boston.

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## ACTIVITY 1 • PART E

*Entrepreneurs—then and now*

*Laura Clough Scudder*

1881–1959

Although Laura Clough Scudder had already achieved a place in history in 1918 as the first female attorney in Utah, California, when she died in 1959 she was hailed as the "Potato Chip Queen of the West." During her lifetime, Laura Scudder earned degrees in law and nursing, and built a home-grown potato chip business into a multimillion-dollar empire that spanned the West Coast.

In the 1920s grocery stores sold potato chips by the pound from glass display cases. Grocers put the chips in paper bags when they were purchased, and by the time the consumer arrived home, the chips were often stale and broken. Scudder decided that she could make better potato chips and invented a way to package them to keep them fresh. The new method of packaging provided the added advantage of allowing customers to serve themselves.

In 1926, Scudder produced her first batch of kettle-fried potato chips in the kitchen of her home. She began with 200 pounds of potatoes—washed, peeled, and sliced by hand. Later, the business was moved to a brick building that she and her husband built next to their home.

As the sales grew, Scudder hired other women to

help. The employees took sheets of waxed paper for a night and hand-ironed them into bags. The next day at work, they filled the bags with fresh potato chips and sealed each bag at the top with more hot ironing.

During the early years of the business, the Scudder family delivered their bags of potato chips to stores in the family automobile. Soon, they found they needed to purchase a panel truck to deliver the growing number of bags sold. Originally delivering her Mayflower Potato Chips in southern California only, Scudder eventually branched out to include northern California, where grocers sold her chips under the name Blue Bird Potato Chip Company.

By 1953 Scudder's potato chip operation had outgrown the original plant and she opened a second manufacturing plant in Fresno, California. The business now employed 1,000 people and accounted for about 50 percent of the potato chip market in California. Annual sales climbed to \$15 million. In 1957, Scudder sold her potato chip company to Signal Oil and Gas Company for nearly \$5 million.

Source: Adapted from "From the Ground Up, The Entrepreneurs Behind Household Names," by Frances Hoffman. Reprinted with permission from *Entrepreneur Magazine*, Irvine, CA, September 1989.

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## ACTIVITY 1 • PART D

*Entrepreneurs—then and now*

*Berry Gordy, Jr.*

1929–

### *Creator of the Motown Sound*

There are very few individuals in this country, and probably around the world, who have not heard of or been influenced in some way by the Motown sound. The list of great stars is seemingly endless.

Smookey Robinson, Diana Ross, Marvin Gaye, The Temptations, Lionel Richie, The Jackson Five, and Stevie Wonder are only a few of these great performers who during the 1960s and 1970s put a lot of soul into the music world and the nation. The development and significance of the music, however, did not come about by accident. It was the direct result of the ambition and entrepreneurial ability of one man.

Berry Gordy, Jr. was born the seventh of eight children in Detroit on November 26, 1929. Although he never finished high school, Berry obtained his high school equivalency diploma while he served in the Army. When he left the service, he initially worked with his father, who was a plastering contractor. Berry then took a job at a Ford Motor Company plant where he made about \$60 a week. Berry found the work not to his liking. He started, with a partner, a record store called the B-

D Mart, which failed shortly thereafter. However, a mass of Berry's ambition, energy, and perseverance was not to be kept down for very long.

In 1960, Berry Gordy, Jr. borrowed \$800 from his family and started a small record company. The company was not an instant success. It was a "tough sell," and the company was in good financial shape. In that year, Motown had 11 Top Ten Rock and R&B hits and was firmly established in the recording industry. The number of hits continued to roll out of the studio and into the record stores throughout the nation. There have been a number of significant results from that initial investment of \$800 by Berry Gordy, Jr. The fact that it has made him many millions of dollars over the years is only one. There is also the tremendous social impact that Motown Records has had in America. Through music the nation has developed a greater sense of togetherness as opposed to the discrimination and conflict of the time when Berry Gordy started the business. The gains made by many black entertainers and other professionals would not have been possible without the success of Motown.

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## ACTIVITY 1 • PART F

*Entrepreneurs—then and now*

*Mary Anne Jackson*

1954–

Juggling a career and motherhood, Mary Anne Jackson, 35, found herself devoting Sunday nights to preparing tasty, nutritious meals that would be easy for a baby-sitter to serve her young daughter when she was at work. When she lost her job, Jackson turned the Sunday night routine into a business.

Her company—My Own Meals, Inc.—is the first to mass-market packaged meals for children aged two to eight. The company produces five different meals with names such as "My Turkey Meatballs" and "Chicken, Please." The meals retail for less than \$3.00 each.

Source: "108 Ideas: Meals for Kids," *Venture Magazine*, New York, NY, November 1988. Reprinted with permission.

The meals are pressure-cooked and vacuum-sealed in plastic pouches using a retort process which makes them shelf-stable. The meals can be microwave-heated in a friend's house. Because they are not frozen, they heat up in a few minutes. The retort packaging also enables Jackson to vie for shelf space in supermarkets rather than slots in the overcrowded frozen food section, which are harder to come by.

Since April 1988, the company has been selling meals through a supermarket chain in Illinois and through the mail. Company sales totaled \$500,000 for the year.

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# LESSON 2

## *Can I be an entrepreneur?*

### **TIME REQUIRED:**

One Class Period

### **CONCEPTS:**

Entrepreneur  
Human Capital

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Identify and discuss the common characteristics of people who become entrepreneurs
- Rate the importance of specific characteristics to the success of entrepreneurs
- Compare their rating of specific characteristics with the rating given by entrepreneurs
- Evaluate themselves in terms of the characteristics common to entrepreneurs

### **RATIONALE:**

Entrepreneurs tend to exemplify some unique "packages" of characteristics that tend to distinguish them from other people in the economy. Their principal motivation is the need for achievement coupled with a strong desire for independence.

While money is important, and no entrepreneur launches an initiative with the expectation of going broke, the earning of money tends to be a secondary consideration. Money tends to serve more as a barometer of success and accomplishment than as a goal in and of itself.

The following are characteristics that are generally common to entrepreneurs: independent, responsible, goal oriented, self-confident, creative, and willing to

take calculated, somewhat controllable risks. Deficiencies in any one of these characteristics tend to limit entrepreneurial activity.

The most essential characteristic of an entrepreneur is self-confidence, or what psychologists call "inner control." This is simply a belief in oneself; a belief that one can do it. Entrepreneurs see their ideas worthy of pursuit and themselves capable of seeing the venture through to a successful conclusion. Entrepreneurs are agents of change. If entrepreneurs do not believe in themselves, they are likely to abandon the effort when faced with resistance.

While research has revealed a number of characteristics and traits that are common to successful entrepreneurs, it has also shown that many of the skills and traits of successful entrepreneurs can be acquired. Entrepreneurs have developed abilities through education, training, experience, apprenticeships, and role-model experiences that assist them in their entrepreneurial ventures.

It is important for potential entrepreneurs to acquire personal insight into their own abilities, strengths, and weaknesses. Anyone exploring entrepreneurship should develop a personal profile to focus their abilities and to pursue initiatives compatible with their strengths rather than their weaknesses.

### **MATERIALS:**

- Activity 2 "Important traits for the successful entrepreneur"
- Activity 3 "Ratings of traits by entrepreneurs"
- Activity 4 "My entrepreneurial traits"

### **VOCABULARY:**

Entrepreneur

an individual who recognizes opportunities (wants or problems)

and uses resources to implement innovative ideas for new, thoughtfully planned ventures

Human Capital      the productive capacities of human beings as income-producing agents in the economy

**PROCEDURES:**

1. Ask students to review the characteristics of entrepreneurs that were listed in Lesson 1. (If using Lesson 2 without Lesson 1, ask students to brainstorm characteristics of people who have started successful businesses.)
2. Distribute Activity 2. After discussing the various traits to assure that students understand their meaning, ask students to place an X in the appropriate box for each trait.
3. Tabulate the students' ratings of the traits. Add the numbers assigned to each trait by each stu-

dent. The higher the total figure for each trait, the more important its ranking.

4. Distribute Activity 3. Compare students' ratings with the list given by entrepreneurs. Numbers in parentheses correspond with numbers on Activity 2. Discuss the three levels of traits. Be sure that each student is able to define these characteristics.
5. Distribute Activity 4. Ask students to complete the evaluations of themselves.
6. Have students compare their entrepreneurial traits with those ranked by entrepreneurs (Activity 3).

**EVALUATION:**

As a homework assignment, have students answer this question in a one-page composition: "How Entrepreneurial Am I?"

Name \_\_\_\_\_

## ACTIVITY 2

### Important traits for the successful entrepreneur

Rate the traits below in terms of how important you think they are for entrepreneurial success.

A "1" would indicate that you believe the trait is relatively unimportant.

A "2" would indicate that you believe the trait is somewhat important.

A "3" would indicate that you believe the trait is very important.

Not important 1	Somewhat important 2	Very important 3	Quality or trait
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1 a high level of energy
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2 good physical health
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3 a strong need to achieve
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4 a willingness to take risks
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 a desire to create
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 a need to closely associate with others
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 a strong desire for money
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 a willingness to tolerate uncertainty
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 an ability to get along with employees
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10 being well organized
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 self-reliance
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12 a need for power
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13 patience
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14 competitiveness
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15 desire and willingness to take the initiative
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16 self-confidence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	17 versatility (ability to do many things)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	18 perseverance (sticking at something difficult)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	19 innovativeness (willingness and ability to do something untried)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	20 ability to lead effectively

Source: Adapted from *Entrepreneurship* by William B. Jovanoff, Carolina Foundation for Economic Education, 1966.

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## ACTIVITY 3

### Ratings of traits by entrepreneurs

#### A. Most important for success

- perseverance (18)
- desire and willingness to take the initiative (15)
- competitiveness (14)
- self-reliance (11)
- a strong need to achieve (3)
- self-confidence (16)
- good physical health (2)

#### B. Important for success

- a willingness to take risks (4)
- a high level of energy (1)
- an ability to get along with employees (9)
- versatility (17)
- a desire to create (5)
- innovativeness (19)

#### C. Least important for success

- ability to lead effectively (20)
- a willingness to tolerate uncertainty (8)
- a strong desire for money (7)
- patience (13)
- being well organized (10)
- a need for power (12)
- a need to closely associate with others (6)

Source: Based on ratings reported in "That Ups to Success" by D. C. McClelland in *Entrepreneurship and Venture Capital*, Prentice-Hall, 1973. (The numbers in parentheses correspond with the numerical listing above for Activity 2.)

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Name \_\_\_\_\_

## ACTIVITY 4

### My entrepreneurial traits

To what degree do you believe you possess entrepreneurial traits?

Indicate your opinion by checking the boxes below.

A "1" would indicate that you feel you possess the trait to a rather low degree.

A "2" would indicate that you feel you possess the trait to a moderate degree.

A "3" would indicate that you feel you possess the trait to a rather high degree.

Low 1	Moderate 2	High 3	Quality or trait
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1 a high level of energy
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2 good physical health
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3 a strong need to achieve
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4 a willingness to take risks
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 a desire to create
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 a need to closely associate with others
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 a strong desire for money
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 a willingness to tolerate uncertainty
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 an ability to get along with employees
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10 being well organized
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 self-reliance
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12 a need for power
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13 patience
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14 competitiveness
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15 desire and willingness to take the initiative
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16 self-confidence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	17 versatility (ability to do many things)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	18 perseverance (sticking at something difficult)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	19 innovativeness (willingness and ability to do something untried)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	20 ability to lead effectively

Source: Adapted from *Entrepreneurship* by William B. Jovanoff, Carolina Foundation for Economic Education, 1966.

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# LESSON 3

## *What does the entrepreneur need to know?*

### **TIME REQUIRED:**

One to Two Class Periods

### **CONCEPTS:**

Human Capital  
Opportunity Cost

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Define human capital and list reasons why the entrepreneur is interested in developing his or her human capital
- Analyze problems of an entrepreneurial enterprise to ascertain needs for human capital development and the opportunity costs involved
- List ways in which human capital is and can be developed
- Compare data on the educational background of entrepreneurs with that of the general public
- State possible reasons why new entrepreneurs generally have a higher formal educational background than the general public

### **RATIONALE:**

Besides having certain personality and physiological characteristics, such as independence and a high energy level, the successful entrepreneur must generally also have some knowledge of business practices and procedures before starting a business. This has become more important as our business and economic world has become increasingly more complex. Successful entrepreneurs start their businesses with some expertise in one

or more of the following areas: managing people and resources, marketing goods and services, keeping business records, acquiring finances producing goods and services, and understanding the economic environment in which the business operates.

This does not mean that entrepreneurs must be experts in each of these areas. They should know enough about or be willing to gain more knowledge about the aforementioned areas in order for their businesses to be successful. If other people are hired to do some of these functions, the entrepreneur should at least have a general idea of what should be done in the functional area for which an individual is hired.

Economists call the development of such knowledge and understanding "human capital." What this basically means is that the person is being educated to be more productive.

Human capital can be developed in many different ways—the formal school setting, self-education, business-sponsored training programs, and on-the-job experiences. As will be shown in the activities to follow, many entrepreneurs use one or more sources to develop the knowledge and understanding necessary for operating a successful business.

### **MATERIALS:**

- Activity 5 "Julie's dream"
- Activity 6 "Additional courses and training taken by new business owners prior to starting new businesses"
- Activity 7 "Owner age when business formed"
- Activity 8 "Formal education of new business owners and the adult public"



**VOCABULARY:**

- Human Capital** the productive capacities of human beings as income-producing agents in the economy
- Opportunity Cost** the highest valued alternative that must be foregone because another option is chosen

**PROCEDURES:**

1. Have students brainstorm the competencies generally required of all entrepreneurs—whether they operate a shoe store or a record shop. Try to categorize the responses into such groupings as finance, marketing, management, production of a product or service, general knowledge about the economy, etc.
2. *Optional.* Have students ask people in the community who own small businesses to list the five most important things they needed to know for success in their business. Have students report on the interviews. Attempt to categorize the responses of the small business owners according to such groupings as finance, marketing, management, production, accounting, general knowledge of the economy. Determine the category that seemed to be mentioned most frequently.
3. Distribute Activity 5. Introduce the activity to the class by indicating that this case problem describes a business that is having some difficulties—difficulties that are typical for a new small business to encounter. Have the students read the case situation and answer the questions. Individual or group work can be used to complete this assignment. The responses are somewhat open-ended.
4. Have students discuss their answers. Students may respond in ways other than those indicated on the answer key. This is particularly true for the

first three questions. If the responses are reasonable, they should be accepted. When considering the procedures used for developing human capital, you may want to use Activity 6 and Activity 7 either as transparencies or as handouts. Activity 6 shows the additional types of formal training that new owners indicated they had taken before starting a new business. On-the-job training or experiences working as an employee for another business are not mentioned here. Activity 7 alludes to the experiential factor, since most new owners start a business after having worked for someone else. Less than 10 percent of new owners, for example, are under 25 years of age, indicating that most gain some experience working for others prior to starting their own business.

5. Distribute Activity 8 which shows by a pie chart a comparison of the formal educational background of new business owners compared to the adult public. Students may have difficulty working with this at first. Some instruction on how to read pie charts probably would be helpful, such as the entire pie equals 100 percent, half the pie equals 50 percent, and a quarter of the pie equals 25 percent.

The purpose of this activity is to show that generally new business owners are not dropouts from schools. While some of them did not complete high school, the vast majority have more formal education than the general public. It is important to point out why this is probably true.

**EVALUATION:**

After the students have completed the activities, ask the following questions:

1. What is human capital?
2. Why is human capital important to a small business?
3. What are some ways to improve the human capital of a firm?
4. Why do you believe new business owners have more formal education than the general public?

Name \_\_\_\_\_

## ACTIVITY 5

### Julie's dream

Read the case study below, then answer the questions that follow.

As a high school and college student, Julie Serzhom hardly ever followed the crowd. Her teachers were always amazed at her creativity and her willingness to work hard on any project that she tackled. She had a high energy level which enabled her to complete many tasks during a given amount of time.

After college, Julie worked as a buyer for a large department store in a major city. She purchased merchandise for the ladies' department in the store. After three years, she decided to return to her hometown. Her employer hated to see her go because of the high-quality work that she did.

After returning home, she worked at various jobs in the area of sales. One of Julie's dreams was to own her own clothing store. She wanted to be her own boss. Her dad was willing to provide some money to help her get started. Since the area was growing rapidly, many new families were moving in. The schools were crowded with students, kindergarten through high school. Julie decided that a clothing store catering to high school and college students could be an exciting and hopefully profitable venture. A dress store would be carried out through the merchandise area.

In August, just before everyone went back to school, she opened a boutique named "The Sharp Look." She hired one full-time person to work with her. During the first two months, many people visited the store, which was probably due to the advertising blitz she ran in the local paper.

After a year, she found that she did not have enough money to pay her employees, but her tax forms showed that she had made a small profit. She also was going to have trouble meeting the monthly payment on her bank loan. Also, her hired staff didn't stay with her very long. They did not like the way she interrupted them during their sales presentations. Julie interrupted because she wanted to make sure the customer was not misled. The accountant from her accounting firm, as indicated that Julie should take advantage of some tax benefits offered by the government, she was reluctant to do so because she did not understand them. She also noticed that about half of her stock did not seem to be very popular.

Julie is in a predicament. Analyze her situation by answering these questions:

1. What are some indications that Julie took some positive, worthwhile action during her first year of operation? She developed an effective campaign which worked effectively. She also sold enough merchandise to make some profit which is quite good considering that it is her first year of operation.

(Continued)

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2. What are some problems that Julie is having in her business?

**CASH FLOW** — not enough money to pay the bills even though a profit was made. This can certainly happen when merchandise has not sold as well as there is considerable outstanding credit sales. **MANAGEMENT PROBLEM** — evidently Julie was not very effective in working with her employees. Some stayed with her very long because of her habit of interrupting the sales presentation. **MARKETING PROBLEM** — a good part of the merchandise was not purchased by the customer. Perhaps it was overpriced and/or was not compatible with the tastes of her clientele. **FINANCIAL PROBLEM** — Julie was not taking advantage of some tax benefits offered by the government that would have been helpful to her. She was reluctant to pursue these options because she did not understand them.

3. Enumerate (see human capital) as the productive ability of people. The productive ability of a firm can be improved by more education of its people who work there. Human capital can be improved through many different ways, such as on-the-job training, course work, learning curves from others, reading literature or talking with others in the same field. Indicate the educational experiences that are necessary for "The Sharp Look" to operate more effectively.

Julie should become more familiar with the real flow of her shop and learn more about how to be available to her as a small business operator. A study of her business operations is necessary as well as learning from courses, readings, and information gained from her accounting services. Julie is uncomfortable with the competency of her employees. She should provide on-the-job training or other means for training employees in store procedures, product knowledge, and how to sell. Julie should study what sold and what did not sell and reasons for success or failure in making specific items. She also should look at what her competitors are doing so she can effectively compete with them. Julie may need some additional knowledge in how to manage people effectively. Readings, course work, and/or advice from others could be helpful.

4. Would this additional education be a cost to the firm? If so, how?

The time taken by Julie to learn more about accounting cannot be used to meet other responsibilities such as buying or selling merchandise. An outside training program for her employees generally will involve a fee and will take them away from work.

(Continued)

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5. How can we tell if the investment in education is worth the time and money put into it?

Many times it is difficult to quantify. If the profit picture, though, improves in both the short and long run, the investment could very well be due to the investment in human capital, especially if it can be traced to specific educational activities.

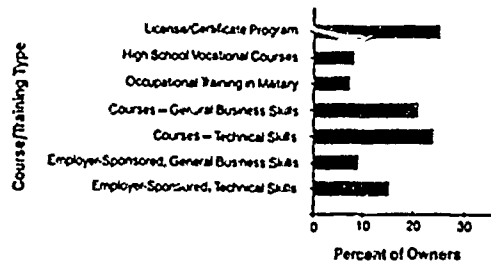
6. Julie seemed to have many personal features required of an entrepreneur, such as creativity, imagination, a willingness to work hard, a high energy level, and a desire to be her own boss. Is that all that is necessary to be a successful entrepreneur?

Yes, as shown by the case, an entrepreneur should have or develop some knowledge base in various areas such as accounting, inventory, marketing, management, and finance. Some people start a business with expertise in one or two areas and develop their abilities in the other areas through and study to learn work and by seeking the guidance and advice of others. Some have part of the responsibility to others, such as the accounting function in Julie's case. Even in such situations, it is important for an entrepreneur to have some basic understanding of the areas to make decisions for the business and to evaluate the quality of the services rendered.

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## ACTIVITY 6

### Additional courses and training taken by new business owners prior to starting new businesses



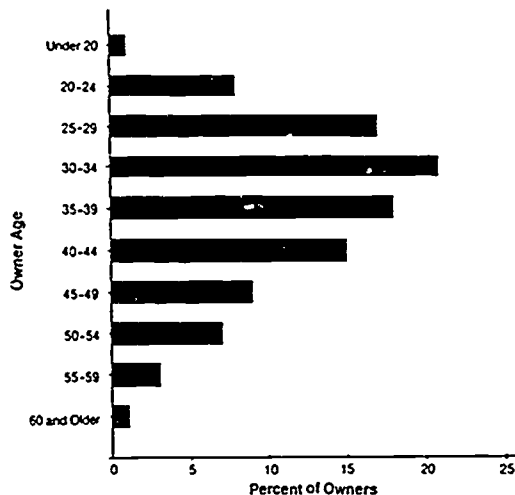
Source: Data assembled and provided by The NFIB Foundation and measured by the American Express Travel Related Services Company. See *Report on Small Business Growth* © 1988 The NFIB Foundation, p. 14.

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## ACTIVITY 7

### Owner age when business formed



Source: Data developed and provided by The NFIB Foundation and sponsored by the American Express Travel Related Services Company, Inc. Reported in *Small Business Primer*, © 1988 The NFIB Foundation, p. 11.  
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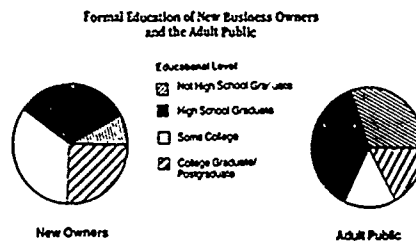
Name \_\_\_\_\_

## ACTIVITY 8

### Formal education of new business owners and the adult public

#### INSTRUCTIONS

The pie charts below show the formal education of the adult public and the owners of businesses. Formal education is the number of educational steps or grades achieved by an individual. Study the pie charts to answer the questions that follow.



Source: The NFIB Foundation and Statistical Abstract of the United States, 1988. Reported in *Small Business Primer*, © 1988 The NFIB Foundation, p. 11.

1. Approximately what percent of the new owners are high school graduates?

- a. 70%-75%    b. 50%-55%    c. 35%-40%    d. 10%-15%

2. Are any of the new business owners individuals who have not graduated from high school? If there are, approximately what percent?

Yes, approximately 20-25%

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2. Approximately 30 to 35% of the adult public in 1988 did not graduate from high school. Was the percentage of non-high school graduates starting new businesses higher or lower than 30% to 35%? Why do you think this is true?

Lower. Many individuals without a high school diploma probably realize that they do not have the skills and knowledge necessary for starting a successful business. Many of them also may not have the needed confidence level.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

4. Approximately 20% of the public have graduated from college. Is the percentage of college graduates starting new businesses higher or lower than 20%? Higher.

5. Based on a comparison of the pie charts, what is a generalization that you can make about the formal education background of people starting new businesses when compared to the general public?

Individuals starting new businesses generally have achieved more formal education than the general public.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

6. Can you think of reasons why new business owners have more education than the general public? List the reasons in the space below.

People with more education generally have a greater breadth of knowledge, a necessity for operating a business. Generally speaking, the more education one has, the more money an employee can make. The more educated could thus have more savings to start a business since most do not start a new business upon graduation from high school or college.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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# LESSON 4

## *Have you ever had to make up your mind? (scarcity)*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Scarcity

Factors of Production

Production Possibilities Curve

Opportunity Cost/Trade-offs

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Identify and explain the concept of scarcity as it exists in situations in their own lives and in an entrepreneurial enterprise
- Identify and define the four factors of production
- Explain the meaning of a production possibilities curve
- Define the term *opportunity cost* and explain how this term is demonstrated by the trade-offs made in a production possibilities curve
- Construct a production possibilities curve based on the data provided

### **RATIONALE:**

Scarcity is the central economic problem. It exists because of our limited ability to produce goods and services to satisfy our unlimited wants. We can't make as many goods and services as we want because there is a finite amount of resources we have to use. Production is the result of the combination of the four factors of production: land, labor, capital, and entrepreneurship. These factors exist in limited quantities so we cannot satisfy

all of our wants. Scarcity necessitates choice. Every time we choose to use scarce resources to make one product, we must give up the opportunity to use those resources to make something else. This process of making trade-offs is the environment in which all American businesses exist and should be examined by students enrolled in programs in entrepreneur education.

### **MATERIALS:**

- Activity 9 "Tony's production choice"
- Activity 10 "What would you do if you won the lottery?"
- Activity 11 Comprehension quiz, lesson 4

### **VOCABULARY:**

Scarcity	the central problem in economics resulting from the imbalance between relatively unlimited wants and limited resources
Factors of Production	resources necessary for production, including land, labor, capital, and entrepreneurship
Land	natural resources ("gifts of nature") before they are changed by human effort; a factor of production
Labor	human effort used to produce goods and services; a factor of production
Capital	tools of production; goods used to produce other goods and services; a factor of production (not money)

Entrepreneurship	the combining of other factors of production to create goods and services; a factor of production
Production Possibilities Curve	a graphic representation of the different combinations of two products that can be made from a finite set of resources
Opportunity Cost	the value of a second choice that is given up when a first choice is taken; the highest valued alternative that must be foregone because another option is chosen

### PROCEDURES:

1. Ask students to identify (make a list of) three different things they like but don't have enough of. Compile a list of these on the board and discuss how they relate to or demonstrate the central economic problem of scarcity.
2. Choose one of the items from the list compiled in procedure 1 above. Be sure the item selected will clearly require examples of each of the four factors of production to produce. Ask your students to identify the resources that are used to produce the designated product. Guide this discussion into an explanation of each of the four factors of production. The fact that we have limited supplies of these factors causes scarcity and forces us to make choices.
3. Define and give examples of opportunity costs. Ask individual students to describe a situation in which

they were forced to make a choice and to identify the opportunity cost of their decision.

4. Distribute Activity 9. Students may work on the exercise individually or in groups. It may be necessary to help less able students complete their work. When the students are finished, go over the work together. Discuss the parts that they found difficult.
5. Point out the fact that in this example there is a constant ratio, or trade-off, between the production of pizzas and the production of spaghetti dinners. Each time Tony makes another pizza, he must make three fewer plates of spaghetti.
  - You may want to explain that this often isn't how production works in reality. Usually there isn't an even one-for-one trade-off between two types of products because not all resources are equally well suited to all types of production. A cook who makes good spaghetti may make a poor pizza. If we require people to work at jobs for which they are not trained, they will not be very productive. If they are reassigned to a task for which they are better suited, their production should increase.
  - Discuss with your students the kinds of things they do well or poorly. Ask them why they are better at some tasks than at others.

### EVALUATION:

Evaluate this lesson using Activity 10 or Activity 11.

Name \_\_\_\_\_

## ACTIVITY 9

### Tony's production choice

Tony owns a small Italian restaurant where he sells takeout pizza and spaghetti dinners.

He doesn't have much space in his kitchen so there is a limit to the amount of food he can prepare during each evening. If he made nothing but pizza, he could produce 100 a night. On the other hand, he could produce 300

takeout dinners if he cooked only spaghetti. He could also make different combinations of the two products. Each additional pizza he makes means he is able to make three fewer spaghetti dinners, and vice versa.

Study the table Tony has made below and answer the following questions:

Time spent per product	Number of pizzas	Number of spaghetti dinners
all on pizzas	100 pizzas	0 dinners
3/4 on pizzas 1/4 on spaghetti	75 pizzas	75 dinners
1/2 on pizzas 1/2 on spaghetti	50 pizzas	150 dinners
1/4 on pizzas 3/4 on spaghetti	25 pizzas	225 dinners
all on spaghetti	0 pizzas	300 dinners

- If Tony wants to make 75 pizzas a night, how many spaghetti dinners will he also be able to make?  
75
- If Tony decides to reduce his pizza production to 50 from 75, how many more spaghetti dinners will he be able to produce than before? 75 more
- Identify examples of each factor of production that must have been used to produce one of Tony's pizzas. Answers will vary. Examples of responses include:
  - Land Land on which the wheat for the flour was grown, trees used to make paper
  - Labor Tony's efforts to make pizza and spaghetti
  - Capital The stoves and pans Tony uses
  - Entrepreneurship Tony starting and operating his pizza/spaghetti business

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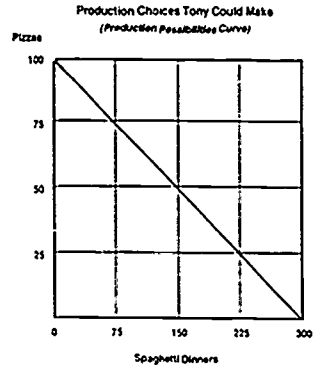
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- What would Tony's opportunity cost be if he decided to increase his production of pizzas from 75 to 100? The value of the 75 spaghetti dinners he would not be able to make.

- How does this situation demonstrate the central economic problem of scarcity?

Tony has scarce resources that limit his ability to produce pizzas and spaghetti. This forces him to make choices.

Now use the data from the table on the front of this sheet to draw a graph of the different production choices Tony could make.



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Name \_\_\_\_\_

## ACTIVITY 10

### What would you do if you won the lottery?

Choose four people (at least one adult) to ask what they would buy if they won \$1,000 in a lottery. Write their answers in the spaces below. Be prepared to talk in class about their answers and the questions at the bottom of the page.

PERSON NO. 1 was male  female

about \_\_\_\_\_ years old

This person would buy \_\_\_\_\_

PERSON NO. 2 was male  female

about \_\_\_\_\_ years old

This person would buy \_\_\_\_\_

PERSON NO. 3 was male  female

about \_\_\_\_\_ years old

This person would buy \_\_\_\_\_

PERSON NO. 4 was male  female

about \_\_\_\_\_ years old

This person would buy \_\_\_\_\_

Think about the answers above and the questions below. Be prepared to discuss these questions in class.

- Why can't people have all the things they want?
- How do people choose which things they want?
- Why do different people want different things?

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Name \_\_\_\_\_

## ACTIVITY 11

### Comprehension quiz, lesson 4

#### PART I

Read the statements below.

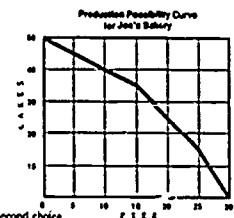
Place an "T" in front of each of the statements you think is true and ignore the space below.

Place an "F" in front of each of the statements you think is false; then write the statement correctly in the space provided.

- Scarcity exists because many people do not have enough money.  
Scarcity exists because there are not enough productive resources to satisfy all of our wants.
- It is necessary to have all four factors of production for production to take place.
- The four factors of production are land, labor, money, and entrepreneurship.  
The four factors of production are land, labor, capital, and entrepreneurship.
- A production possibilities curve shows different combinations of two products that can be produced from a set of resources.
- If I decide to spend \$6 to go to a movie instead of using the money to buy a book, my opportunity cost is the value of the \$3 I spent on the movie.  
My opportunity cost is the value of a book that I would have bought as my second choice.

#### Part II

Study the graph to the right and answer the following questions.



- If Joe is baking 26 cakes, how many pies can he bake?  
\_\_\_\_\_ 5 \_\_\_\_\_
- If Joe decides to bake 25 pies, how many fewer cakes will he be able to produce?  
\_\_\_\_\_ 20 \_\_\_\_\_
- What would be Joe's opportunity cost if he decided to use all his resources to make 30 pies?  
The lost value of the cakes that he could have produced as a second choice.

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# LESSON 5

## *The role of entrepreneurs in our economy*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Economic Systems (traditional, command, market, mixed)

Competition

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Identify and compare the basic types of economic systems in which an entrepreneur can operate
- State at least five contributions of competition and give examples of each
- State and give examples of at least three benefits of entrepreneurship to society

### **RATIONALE:**

Societies develop economic systems to provide a structure for determining how limited resources will be used to meet the unlimited wants of their members. To date societies have developed three basic types of economic systems: traditional, command, and market. A fourth, the mixed economic system, is a combination of the first three systems for making economic decisions.

Entrepreneurs flourish in the market economy because this system empowers individuals to make economic decisions. Profit serves as the incentive to encourage individuals to take the risk to start a new business venture.

Through personal initiative and the effective implementation of innovative ideas, entrepreneurs respond to economic wants and in so doing make a significant contribution to the betterment of any society. Entrepreneurs

are always looking for ways to improve the efficiency of the economy, and when they are successful, they stimulate economic growth. The result of this improved efficiency, economic growth, and job creation is expanded economic opportunities for each one in the economy.

### **MATERIALS:**

- Activity 12 "Basic economic systems"
- Activity 13 "Scenarios for economic systems comparison" and "Response page"
- Activity 14 "Contributions of competition"
- Activity 15 "Product competition in a market economy"
- Activity 16 "Benefits of entrepreneurship to society"
- Activity 17 Case studies (Part A and Part B)

### **VOCABULARY:**

Entrepreneurship

the human resources that assume the risk of organizing other resources to produce goods and services

Economic System

the institutional framework that people use to allocate resources to produce and distribute goods and services. Economic systems operate to answer the three basic economic questions: What is to be produced? How is it to be produced? For whom is it to be produced?



**Traditional Economic System** an economic system in which production and distribution decisions are largely determined by custom, i.e., the way things have been done in the past

**Command Economic System** an economic system in which a central authority makes the major production and distribution decisions; a system in which a central authority, usually government (e.g., politicians, civil servants, and military), decides what to produce, how to produce it, and for whom it shall be produced

**Market Economic System** an economic system in which the major decisions about production and distribution are made in a decentralized manner by individual households and business firms following their own self-interest. In a market economic system, individual consumers and producers make decisions based on prices about what is to be produced, how it is to be produced, and for whom it is to be produced, based on decisions they believe will benefit them individually

## PROCEDURES:

### DAY ONE

1. Discuss with students the differences among the three economic systems. Use examples of the three systems, both in past times and in modern times.
2. Distribute Activity 12.
3. Divide the class into six groups. Assign two groups to be traditional, two to be command, and two to be market economic systems. Give each group Activity 13.
4. Assign different situations to different groups or the same one to all groups. Instruct the groups as follows:
  - read each of the assigned situations given in Part A

- discuss among group members how the economic system will react to this new situation
- have the group record answers on Part B.

5. Have each group share its answers with the class.

**NOTE:** Procedures 1-5 can take one class period depending on how many situations students must respond to.

### DAY TWO

6. Distribute Activity 14. Discuss it with the class. (This handout could be assigned as homework to be read prior to class.)
7. Divide the class into groups. (Change the composition of the groups from the previous day.) Assign each group a product. (Teacher can have the products written on separate pieces of folded paper.) Suggestions of products for the activity are: cars, sodas, sneakers, pizza, jeans, toothpaste.
8. Using Activity 14 as a guide, tell each group to give an example of how a business in its product line accomplished each contribution. Example:
  - A. Can lead to lower prices
    1. cars—rebates
    2. sodas—discount coupons
    3. sneakers—seasonal sales
    4. jeans—free shirt with pair of jeans
    5. pizza—large pizza for price of medium
    6. toothpaste—redemption prize

Distribute Activity 15 for students to record their responses.

9. Have each group share its answers with the class.
10. Give each student a copy of Activity 16, or use as a transparency. Discuss the list of benefits with the class, making sure all students understand the benefits. Ask the students to give examples.
11. Distribute Activity 17. Depending on the amount of time available, have students complete the activity in class or as homework.

## EVALUATION:

Ask the students to find a current entrepreneurial case study example in newspapers or business journals, such as *Money, Inc.*, *Entrepreneur*, etc. They should read the article and list examples of benefits to society that resulted from the entrepreneurial activity.



## ACTIVITY 12

### Basic economic systems

All countries have developed economic systems (ways of producing and distributing goods and services). Economic systems are used to answer the three basic economic questions. What goods and services are to be produced? How are goods and services to be produced? For whom are goods and services to be produced? Different types of economic systems have different mechanisms (methods) for answering these questions.

Type of economic system	What to produce?	How to produce?	For whom to produce?
MARKET ECONOMY	Business firms produce goods and services that consumers are willing and able to buy for prices that will yield profits for the firms.	Seeking to compete profitably in the marketplace, individual business owners decide what combinations of productive resources (land, labor, capital, and entrepreneurship) they will use in producing goods and services.	Finished goods and services are distributed to individuals and households who are willing and able to buy them.
COMMAND ECONOMY	A central planning authority (government agency) decides what goods and services to produce.	A central planning authority (government agency) decides what combinations of productive resources will be used in producing goods and services.	A central planning authority (government agency) decides who receives the goods and services that are produced.
TRADITIONAL ECONOMY	The goods and services produced today are the same as those produced in previous generations.	The combinations of productive resources used in producing goods and services are the same as those by past generations.	Finished goods and services are traded locally for other finished goods and services.

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## ACTIVITY 13 • PART A

### Scenarios for economic systems comparison

1. A new strain of low-cholesterol corn is developed.
2. The country's landfills are becoming scarce.
3. A baby boom has started.
4. There is an excess supply of steel.
5. A livestock killer bee has invaded the country.
6. The cost of milk has sharply increased.
7. Two neighboring countries are at war.
8. A shortage of nurses has occurred.
9. Denim coats are the new fad.
10. Medical research proves that citrus fruit causes high blood pressure.
11. Vans cause great damage to highways.
12. Vocational jobs are plentiful.

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Name \_\_\_\_\_

## ACTIVITY 13 • PART B

### Response page

Situation No.  \_\_\_\_\_  
Type of economic system \_\_\_\_\_

Response of economic system to this situation

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Situation No.  \_\_\_\_\_  
Type of economic system \_\_\_\_\_

Response of economic system to this situation

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## ACTIVITY 14

### Contributions of competition

- Can lead to lower prices
- Can lead to improved quality
- Can lead to larger variety of goods and services
- Can lead to better service
- Can lead to increased efficiency
- Can lead to greater sensitivity to consumers' needs and wants
- Can lead to faster responses to consumers' needs and wants
- Can lead to greater innovation

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Name \_\_\_\_\_

## ACTIVITY 15

### *Product competition in a market economy*

PRODUCT: \_\_\_\_\_

Price: \_\_\_\_\_

Quality: \_\_\_\_\_

Variety: \_\_\_\_\_

Service: \_\_\_\_\_

Efficiency: \_\_\_\_\_

Sensitivity: \_\_\_\_\_

Response: \_\_\_\_\_

Innovation: \_\_\_\_\_

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## ACTIVITY 16

### *Benefits of entrepreneurship to society*

Entrepreneurs generate at least six overall benefits to society:

1. Increased competition
2. Economic growth
3. Increased employment
4. Altered distribution of income
5. Economic efficiency
6. Increased opportunities for all individuals

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## ACTIVITY 17 • PART A

### *Entrepreneurs turn idle grain mill into highly automated flour producer*

Entrepreneurs are turning a long-idle grain mill into a highly automated one that processes flour for spaghetti and macaroni products. John C. Miller, president of the company that owns and runs the operation, said that the start-up could mean a whole new crop for farmers and would attract other flour-related business such as pet food, animal food, and snack food companies.

The original mill was built shortly after WWII to produce animal feed, but since 1971 has been kept idle. Earlier this year the mill was renovated and new automated machinery was installed. Miller notes that the

company has enough orders to operate the mill at capacity until next summer. He said the demand for pasta has been climbing an average of 5.6 percent a year in the past eight years and that the average American now consumes 13 pounds of pasta per year.

The plant, which is run by computer, takes only three people per shift to operate, but other workers are needed for maintenance, lab work, and other tasks. The mill's current work force of 20 is expected to expand to 35 by January.

#### QUESTIONS

1. What product was being produced by these entrepreneurs? \_\_\_\_\_
2. What did they do that was entrepreneurial? \_\_\_\_\_
3. List at least three benefits to people in society from the entrepreneurial effort \_\_\_\_\_

Source: "Entrepreneurs Turn Idle Grain Mill Into Highly Automated Flour Producer" by Thomas W. Corbett, The Plain Dealer, December 18, 1971. Reprinted with permission.

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## ACTIVITY 17 • PART B

### *Entrepreneurship and employment*

A recent report issued by the United States Small Business Administration contained the following information. Last year new jobs in the American economy totaled over 4 million. Almost all of these jobs were generated by new or growing entrepreneurial businesses. Older, larger businesses actually reduced their level of employment by some 1.7 million workers. Increasingly, the United States economy has come to rely upon venture creators who also create jobs for America's growing work force.

It is not just the number of jobs that entrepreneurs create that makes them important to the economy. Over

90 percent of American workers first worked in a small and growing business. These businesses provide the first employment opportunities in which workers learn the skills and discipline necessary for success in later life.

Behind almost every job there is an entrepreneur. Even public sector jobs, such as police officers, teachers, and government workers, must be paid out of the tax revenues which the government receives from private firms and the individuals employed by those firms. An entrepreneurial economy generates the additional tax dollars needed to support public services and public employment.

#### QUESTIONS

1. Who creates most of the new jobs in the economy? \_\_\_\_\_
2. Most entry level jobs are to be found in what kinds of firms? \_\_\_\_\_
3. Why are government jobs dependent upon the efforts of entrepreneurs? \_\_\_\_\_

Source: Adapted from a report on small business, U.S. Small Business Administration, 1986.

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# LESSON 6

## *Markets in the circular flow of the economy*

### TIME REQUIRED:

One or Two Class Periods

### CONCEPTS:

Markets  
Circular Flow Model  
Product Market  
Factor Market

### INSTRUCTIONAL OBJECTIVES:

Students will:

- Identify and trace the flow of goods and services, factors of production, and money through a circular flow model
- Explain the relationship between transactions that occur in the product market and those that happen in the factor market
- Describe the significance of the role played by entrepreneurs in connecting transactions in the factor market with those in the product market

### RATIONALE:

In the United States, all firms exist within the context of our economic system, which economists represent with a circular flow model. In this model, businesses sell goods and services to households in the product market. The money that firms earn in the product market is used to purchase factors of production from households in the factor market.

There are two flows of value in the model. Goods and services and factors of production move in a counter-clockwise direction. At the same time, there is a flow of money of equal value, which circulates in the opposite direction. In their effort to earn profits, entrepreneurs

help keep these flows moving and the economy healthy. By studying this model, students will gain an appreciation of the role firms play in the functioning of the economic system.

### MATERIALS:

- Activity 18 "The circular flow of resources, goods, services, and money payments"
- Activity 19 "What happened in Upper Utopia?"
- Activity 20 "My family and me in the circular flow model"
- Activity 21 Comprehension quiz, lesson 6

### VOCABULARY:

Market	a situation in which exchanges between buyers and sellers of a product or service are made
Circular Flow Model	a representation of the interactions between households and producers in product and resource markets; a representation of the economy, which shows the flows of money, goods and services, and factors of production through the product and factor markets
Product Market	any setting where goods and services are exchanged by producers and consumers
Factor Market	any setting where factors of production are exchanged by owners (sellers) and buyers (firms)

**PROCEDURES:**

1. Make a transparency of the circular flow model included in Activity 18 or draw a circular flow model on the chalkboard so that it can be easily seen by all students. Trace the flows of goods and services, factors of production, and money through the system. Distribute Activity 18, which includes a desk copy of the model and a list of events, to each student. Tell students to determine where each event should be placed on the chart. They may do this as individuals, as pairs, in small groups, or together as a class. When they have finished, discuss what they have done. Be sure they understand any mistakes made in placing the events correctly on the chart.
2. Using an enlarged copy of the circular flow model or the transparency made in procedure 1 above, help students identify which parts of the model would be affected by each of the following events. Emphasize the fact that an interruption of any flow at any place in the model will affect all other parts of the flow model. This shows that economic events in one part of the system inevitably affect its other parts.

**EVENTS:**

- all the members of a large union go on strike
  - a major manufacturer of automobiles goes out of business
  - many workers are worried about being laid off and spend less
  - a war in another part of the world cuts off our supply of imported crude oil
3. Distribute copies of Activity 19 to each student. Ask students to read the paragraph at the top of the page and be prepared to discuss the questions that follow. Go over the questions with your students. Define the term "derived demand" for them. Discuss how the situation they read about demonstrates the derived demand for labor and the relationship between the factor and product markets. Emphasize that an interruption of any flow at any place in the model will cause a disruption of the entire economic system.

**EVALUATION:**

Evaluate the lesson using either Activity 20 or Activity 21.

Name \_\_\_\_\_

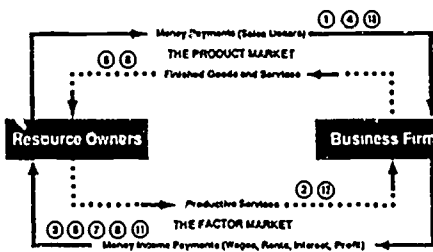
## ACTIVITY 18

*The circular flow of resources, goods, services, and money payments\**

### INSTRUCTIONS

Read the events below. Place the number of each in the appropriate space on the circular flow model.

Event 1 Jill paid her bill at her local department store.	Event 2 Yvon sold 100 acres of land to a firm that wants to build a factory on it.	Event 3 Terry received a dividend from a corporation in which he owns stock.	Event 4 Mrs. Chd purchased a new Ford from the dealership.
Event 5 Marie received her paycheck last Friday.	Event 6 Todd took home a new shirt he chose at a store.	Event 7 Mrs. Tomson earned \$18,000 from the beauty shop she owns.	Event 8 Tom had his car fixed at a local garage.
Event 9 Karen received \$200 from a firm that rents a building she owns.	Event 10 Shelly can't afford to buy a car so she leased one from a dealer.	Event 11 Mr. Martines received \$500 interest payment for the corporate bond he owns.	Event 12 The ABC Co. took delivery of a new furnace it needed to make brass fittings.



\* Source: A Framework for Teaching the Basic Concepts of Joint Council on Economic Education, New York, NY p. 22  
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Name \_\_\_\_\_

## ACTIVITY 19

*What happened in Upper Utopia?*

Read the case study below; then answer the questions that follow.

For many years the economy of Upper Utopia worked well. Firms made reasonable profits, workers earned fair wages, stores had good sales, everyone had a good standard of living and was quite happy. However, no one was really rich.

Some workers and some entrepreneurs came to feel they needed more: more money, nicer houses, longer vacations, bigger cars, etc. As it turned out, the workers who wanted higher wages were employed by the businesses whose owners wanted bigger profits. When the workers demanded higher wages, the owners raised the

price of their products even more. Soon the firm's sales fell. The owners made no profit and were unable to pay their workers. The workers were laid off and could not buy goods or services. Eventually the firm went out of business.

These events hurt other workers and businesses in the economy. The laid-off employees were unable to buy products manufactured by other firms. The closed business didn't buy raw materials, tools, or other factors of production. As a result, the entire economy went into a recession, which hurt everyone.

1. Where do firms earn the revenue that allows them to pay for the factors of production?  
They earn the revenue in the product market.

2. Where do people earn the money that allows them to buy goods and services?  
They earn the money in the factor market.

3. If firms do not earn money, what will happen to their ability to pay for factors of production?

If people do not earn money in the product market, they will not be able to buy resources in the factor market.

4. If people do not receive income, what will happen to their ability to purchase goods and services?

If people do not receive income in the factor market, they will not be able to buy goods and services in the product market.

5. Explain why the factor and product markets depend on each other.

Money earned in both the factor and product markets circulates through the economy. An interruption of the flow in any market will affect the health of the entire economy.

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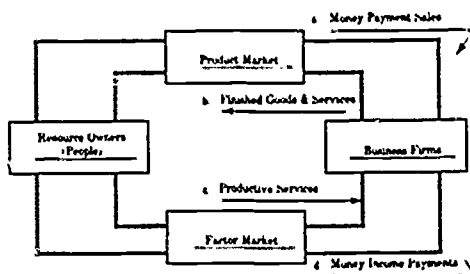
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Name \_\_\_\_\_

## ACTIVITY 20

*My family and me in the circular flow model*

Below is a blank copy of the circular flow model. Label each part in the appropriate space. There is a letter at the start of some of the spaces. The same letters appear on the lines below the chart. For each letter, describe something you do, or a member of your family does, that fits into the blank on the circular flow model.



a. Answers will vary. (Example of an appropriate answer — "When my mother pays the bill on her credit card.")

b. Answers will vary. (Example of an appropriate answer — "When I eat lunch at a restaurant.")

c. Answers will vary. (Example of an appropriate answer — "When my mother or father receives his or her paycheck.")

d. Answers will vary. (Example of an appropriate answer — "When my sister delivers newspapers.")

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Name \_\_\_\_\_

## ACTIVITY 21

*Comprehension quiz, lesson 6*

### PART I

From the list below, choose the phrase that correctly completes the sentence and write the phrase in the appropriate blank.

factor market      derived      profit  
product market      a mortgage payment      circular flow model

1. A \_\_\_\_\_ represents the flows of money, goods, and services, and other factors of production through the economy.

2. Food, shelter, and clothing are bought and sold in the \_\_\_\_\_ product market.

3. Land, labor, capital, and entrepreneurship are bought and sold in the \_\_\_\_\_ factor market.

4. \_\_\_\_\_ Profit \_\_\_\_\_ is a part of the flow of money between the business and households that passes through the factor market.

5. A \_\_\_\_\_ mortgage payment \_\_\_\_\_ is a part of the flow of money between the households and business that passes through the product market.

6. Economists call the demand for factors of production \_\_\_\_\_ derived \_\_\_\_\_ demand.

### PART II

Read the paragraph below and answer the following questions.

In 1849, when gold was first found at Sutter's Mill, there were very few people living in that part of California. Two years later thousands of people had moved there. Many people who never even looked for gold had jobs or ran businesses in the area.

7. Why were stores able to sell so many more goods in that part of California after the gold was found?  
Stores sold more goods because more people moved into the area.

8. Why were so many people able to find jobs working in stores there?  
As stores sold more goods, they needed to hire more workers.

9. When the gold ran out, why did many "boom towns" become "ghost towns"?  
When the gold ran out, people left and stores failed.

10. How does this example demonstrate the idea of derived demand?

The stores only hired workers as long as they were able to sell goods in the product market. Their demand for labor was derived from the demand for the products they sold.

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# LESSON 7

## *What is an entrepreneurial innovation?*

### **TIME REQUIRED:**

One Class Period

### **CONCEPTS:**

Entrepreneur  
Factors of Production  
Innovation  
Invention  
Entrepreneurial Ideas  
Entrepreneurial Opportunities

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Differentiate between an inventor and an entrepreneur
- Differentiate between an entrepreneurial opportunity and an entrepreneurial idea
- Define innovation
- Given a list of entrepreneurial opportunities, suggest entrepreneurial ideas for responding to each

### **RATIONALE:**

Entrepreneurs use innovation as a tool to effect change and to develop better products, services, and processes that are wanted by others. Innovation is a driving force for change and is given birth by inventors. It is the entrepreneur who brings the innovation to "life" and uses it to make a valuable contribution to change, development, and progress in the economy.

A new idea is meaningless to the economy unless it is brought to market and made available for others to enjoy and utilize in meeting their wants. Therefore, it is essential that entrepreneurs focus their ideas on a

specific opportunity, a want (perhaps not yet recognized) that needs to be satisfied, a problem that has to be overcome, or a challenge that has to be met.

### **MATERIALS:**

- Activity 22 "Responding to an entrepreneurial opportunity"
- Activity 23 "Brainstorming technique"
- Activity 24 "Invention, innovation, and entrepreneurship"

### **VOCABULARY:**

**Entrepreneur** an individual who recognizes opportunities (wants or problems) and uses resources to implement innovative ideas for new, thoughtfully planned ventures

**Factors of Production** resources necessary for production, including land, labor, capital, and entrepreneurship

### **PROCEDURES:**

1. Ask students to define "inventor." Through class discussion, elicit a definition similar to the following: An inventor develops something new and creates new products, services, and/or processes.
2. Place the following statement on the board: "An inventor and an entrepreneur actually do the same thing." Ask students if they agree with the statement. The discussion should lead to the idea that inventing something is one process, but getting it widely accepted, produced, and distributed is the domain of the entrepreneur. Many inventions, for example, are never duplicated because no entre-

preneurial talent with the other three factors of production together—land, labor, capital—to have it made, sold, and distributed to consumers.

3. Ask students to define "innovation" in an entrepreneurial sense. Conclude the discussion by generating a definition such as "to be innovative means to develop something of value and useful to others, not just something that is simply new and different."
4. Spend some time discussing how entrepreneurs generate innovation. Distribute Activity 22. Direct students' attention to the definitions of an entrepreneurial opportunity and an entrepreneurial idea. Use the examples to point out the differences and relationship between the two.
5. Divide the class into brainstorming groups and ask each group to identify entrepreneurial opportunities in their school and community. If students need help or instructions in brainstorming, distrib-

ute or review with them the rules in Activity 23. Appoint a recorder/reporter for each group. Allow 10 minutes for the brainstorming session.

6. Have each reporter present the group's *best* entrepreneurial opportunity. As each opportunity is presented, evaluate it as a class. List the opportunities on the board. At the end of the exercise, have the class select what it perceives to be the one *best* opportunity.
7. Ask each student to write three to five specific ideas, being as innovative as possible, that could be considered as a response to the opportunity selected by the class in procedure 6 above. When this is done, have the students share what each considers his or her *best* entrepreneurial idea with the class.

**EVALUATION:**

Have students work in cooperative groups to complete Activity 24.

Name \_\_\_\_\_

## ACTIVITY 22

### Responding to an entrepreneurial opportunity

Entrepreneurial Opportunity	Entrepreneurial Idea
<b>Definition</b> A want, problem, or challenge that can be addressed, solved, and/or satisfied by an innovative initiative	<b>Definition</b> A specific innovative way to satisfy a want, solve a problem, or meet a challenge
<b>Example</b> People are increasingly concerned of the food they eat and the water they drink People are increasingly concerned about health and fitness There is a need for widespread education regarding AIDS Many people are intrigued by computers Many people cannot read or write Australia is very "m"	<b>Example</b> Health food or fresh food restaurant A new form of health club A new, innovative way to provide AIDS education A home education program on computers A new type of program to combat illiteracy An Australian film festival

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## ACTIVITY 23

### Brainstorming technique

1. Don't criticize another person's ideas. Group members will tend to talk less if this happens. The more freer ideas will be expressed. Group leaders should discourage such phrases as "That's a dumb idea."
2. Encourage freewheeling. The wilder the ideas, the better. It is easier to tame down a wild idea than it is to think up another one.
3. Try for quantity. The larger the number of ideas, the better the chances of getting good ones.
4. Combine and build on the ideas of others. Group members should use their own ideas. They should also suggest how the ideas of others could be turned into better ideas. Sometimes two or three ideas can be joined to form another idea.

One person started a brainstorming session by saying, ...

"Who, new products not now available are needed for the home? Here is your opportunity to dream up all those gadgets, appliances, etc., that you believe would make life more enjoyable."  
These are a few of the ideas generated in the session.

- Section caps on the bottom of egg beaters to prevent sliding in the bowl
- Yarn can be constructed that the side in the upper or lower half can be opened or closed independently of the other half
- Switches for doorbells so you can turn them off when children are sleeping or when you don't want to be disturbed

Get together with two or three people to practice brainstorming ...

Start with the statement: "Name as many uses as you can for empty plastic household detergent bottles." How many did you list in your group? It will be interesting to compare your list with those of other groups in the class. Even though brainstorming is used most often in groups, you can also use it alone. Follow these rules for individual brainstorming:

1. Don't judge your own ideas until you have finished the list. Never erase or scratch out an idea.
2. Do some freewheeling. Don't be afraid to write down some "dumb" ideas.
3. Try for quantity. Remember, by writing down many ideas you increase your chances of getting good ideas.
4. Combine and improve. Write down all ideas that come to mind. Then add to the list by combining and improving ideas.

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Name \_\_\_\_\_

## ACTIVITY 24

### Invent' on, innovation, and entrepreneurship

#### 1. Answer the following questions

a. What is the difference between an inventor and an entrepreneur?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

b. Can an inventor and an entrepreneur be the same person? Explain your answer.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

c. Are the same skills needed for the two roles?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Continued)

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#### 2. In the spaces provided, list two examples of an entrepreneurial opportunity and provide at least one entrepreneurial idea for each.

a. Entrepreneurial opportunity

\_\_\_\_\_  
\_\_\_\_\_

Entrepreneurial idea(s)

\_\_\_\_\_  
\_\_\_\_\_

b. Entrepreneurial opportunity

\_\_\_\_\_  
\_\_\_\_\_

Entrepreneurial idea(s)

\_\_\_\_\_  
\_\_\_\_\_

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tion? The discussion of these questions should lead to an analysis of the concept of economic interdependence in that the economic actions of one person affect other people—it opens and closes opportunities. As an example, have the class think about the impact of the automobile on several of the following: (a) horse traders, (b) hotel builders, (c) railroads, (d) saddle makers, (e) map makers, (f) city planners, (g) retail stores, (h) insurance companies, (i) oil companies, (j) blacksmiths.

3. Distribute Activity 25. Discuss the interdependence that this diagram reveals. You may need to explain some of the terms and reasons why different industries or businesses are affected. For example, because of computer software packages, the adding machine and the appointment calendar will not be in as much demand, or corrections of copy can be made electronically by a microcomputer; thus, correction devices are not needed as much as they once were. Ask what new industries have risen because of the microcomputer innovation.
4. Distribute Activity 26, Activity 27, and Activity 28. Go over the instructions for having the students indicate the products/services that are positively

and negatively affected by each of the innovations. (You may wish to divide the class into small groups or pairs and assign one of the innovations to each.) Have the groups report their findings to the class. Discuss ways in which the responses from groups working on the same innovation were similar or different and reasons for these similarities or differences.

5. *Optional.* As an alternative to procedure 4 above, distribute Activity 29 and have each student or group identify an innovation and name the producers who were positively and negatively affected by its introduction.
6. Spend some time explaining how innovation encourages the mobility of factors of production. Explain that the factors of production are land, labor, capital goods, and the entrepreneur. When an innovation is accepted, the entrepreneur uses an increasing amount of factors of production to produce his or her product. Other entrepreneurs who start businesses related to the innovation use additional factors of production necessary to make their goods or services.

**EVALUATION:**

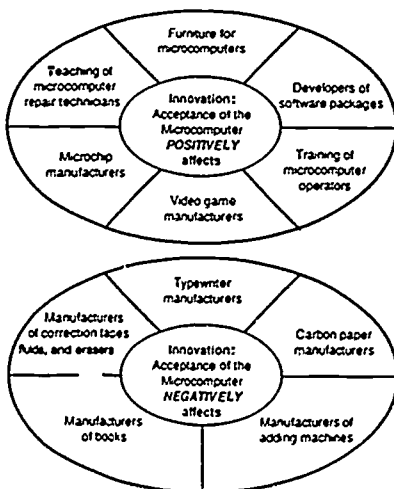
Have students complete Activity 30.

**ACTIVITY 25**

*Ripple effects in the marketplace: microcomputers*

**INNOVATIONS GENERATE NEW INDUSTRIES AND ECONOMIC ACTIVITIES.**

An innovation not only affects those making and selling the innovation, but also encourages the development and sale of related goods and services. Innovation can also affect some industries and companies in a negative way—meaning that they suffer because of the acceptance of the innovation. The diagram below illustrates these points.



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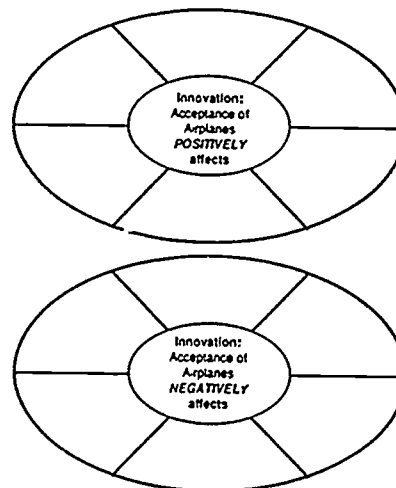
Name \_\_\_\_\_

**ACTIVITY 26**

*Ripple effects in the marketplace: airplanes*

**INSTRUCTIONS**

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the airplane.



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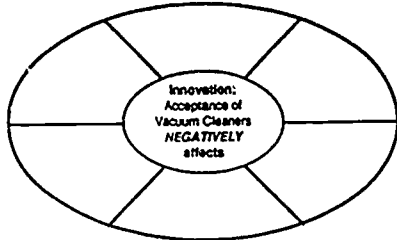
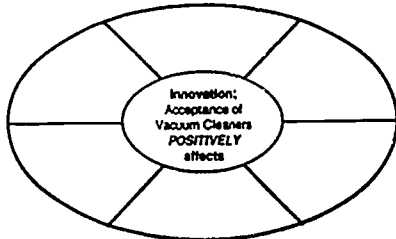
Name \_\_\_\_\_

## ACTIVITY 27

### *Ripple effects in the marketplace: vacuum cleaners*

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the vacuum cleaner.



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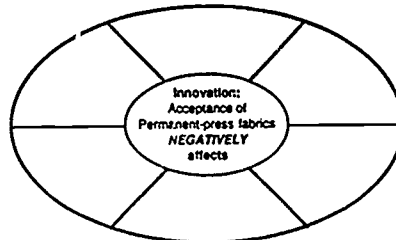
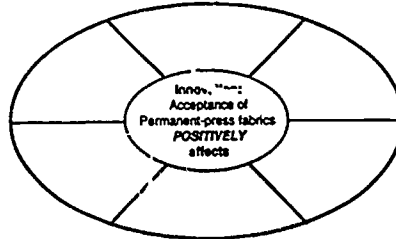
Name \_\_\_\_\_

## ACTIVITY 28

### *Ripple effects in the marketplace: permanent-press fabrics*

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of permanent-press fabrics.



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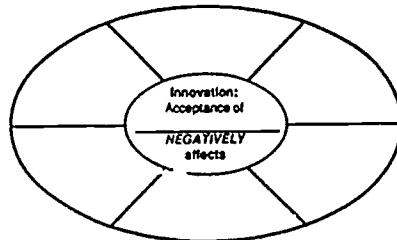
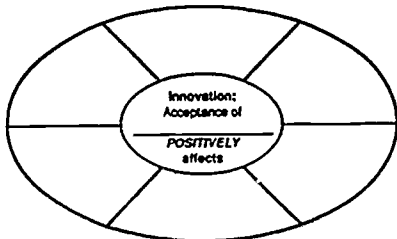
Name \_\_\_\_\_

## ACTIVITY 29

### *Ripple effects of an innovation*

#### INSTRUCTIONS

Write the name of an innovation in the blank space provided in the inner segment. Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the innovation.



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Name \_\_\_\_\_

## ACTIVITY 30

### *Comprehension quiz, lesson 8*

#### THE LEAN, MEAN FLYING MACHINE

Let's suppose the activities of an entrepreneur result in the invention and successful marketing of a compact, inexpensive airplane that takes off without an extensive runway or airfield!

What businesses might be positively affected by this innovation?

Also suppose that this new airplane is so easy to operate as an automobile. What business/industries might be negatively affected by this innovation?

Write your answers in the spaces provided.

**Businesses/industries that might be positively affected:**

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**Businesses/industries that might be negatively affected:**

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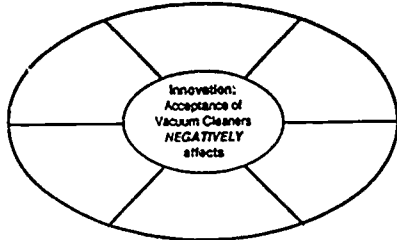
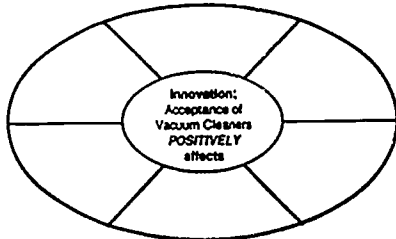
Name \_\_\_\_\_

## ACTIVITY 27

### Ripple effects in the marketplace: vacuum cleaners

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the vacuum cleaner.



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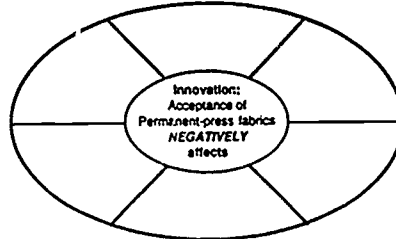
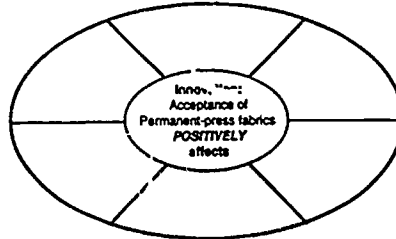
Name \_\_\_\_\_

## ACTIVITY 28

### Ripple effects in the marketplace: permanent-press fabrics

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of permanent-press fabrics.



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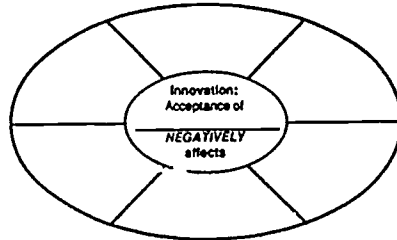
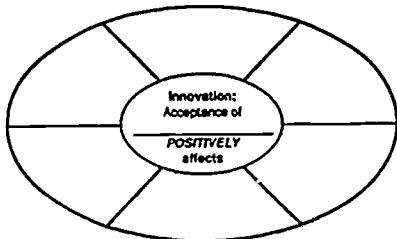
Name \_\_\_\_\_

## ACTIVITY 29

### Ripple effects of an innovation

#### INSTRUCTIONS

Write the name of an innovation in the blank space provided in the inner segment. Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the innovation.



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Name \_\_\_\_\_

## ACTIVITY 30

### Comprehension quiz, lesson 8

#### THE LEAN, MEAN FLYING MACHINE

Let's suppose the activities of an entrepreneur result in the invention and successful marketing of a compact, inexpensive airplane that takes off without an extensive runway or airfield!

What businesses might be positively affected by this innovation?

Also suppose that this new airplane is so easy to operate as an automobile. What business/industries might be negatively affected by this innovation?

Write your answers in the spaces provided.

Businesses/industries that might be positively affected:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Businesses/industries that might be negatively affected:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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# LESSON 9

## *How much are consumers willing to pay? (demand)*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Demand  
Law of Demand  
Demand Curve  
Determinants of Demand  
Shift in Demand

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Define demand and demonstrate knowledge of how the law of demand functions
- Explain why demand is necessary to the success of any enterprise including entrepreneurial ventures
- Identify and explain determinants of demand
- Construct and read a demand curve
- Recognize situations that result in a shift in demand and determine the direction and economic consequences of the shift

### **RATIONALE:**

Although the primary objective in running a business is to earn a profit, this is impossible if no one wants to buy the product being offered for sale. Entrepreneurs need to know how many products they will be able to sell at various prices in the market they serve. They also must be aware of factors that have the potential of changing demand for their products. Finally, they need to understand the impact that changes in price would have on the number of products they can sell. Without a basic

knowledge of these market forces, entrepreneurs are less likely to succeed in earning a profit.

### **MATERIALS:**

- Activity 31 "The demand for 'Kookies' "
- Activity 32 "What is happening to the demand for canned tuna?"
- Activity 33 "Factors affecting demand"
- Activity 34 Comprehension quiz, lesson 9

### **VOCABULARY:**

Demand	the schedule of how much consumers are willing and able to buy at all possible prices in a given period of time
Law of Demand	everything else being equal, more products will be demanded at a lower price than at a higher price
Determinants of Demand	factors (incomes, tastes, and preferences, the prices of substitute or complementary products, expectations for the future) that cause the demand for a product to change
Demand Curve	a graphical representation that shows the number of products that will be demanded at various prices; a graphical representation that shows the relationship between different prices for a product and how much of it people

Shift in Demand      ple will be willing to buy at each price  
 an increase or decrease in demand that results from a change in a determinant of demand for a product

**PROCEDURES:**

1. Distribute a copy of Activity 31 to each student. Ask them to read Part A and to complete the table.

2. Tabulate your students' answers on the board as follows:

Price	Total number of "Kookies" students in this class would buy
\$ .20 each	_____
.40 each	_____
.60 each	_____
.80 each	_____
1.00 each	_____

3. Discuss the meaning of the terms *demand* and the *law of demand* with them.

4. Plot a demand curve on the board based on the data collected from your students. Have each student do the same on Part B of the activity. Point out how the law of demand is demonstrated by their graphs (the number of "Kookies" that would be demanded at a low price is greater than that which would be demanded at a higher price).

5. Ask your students what would happen to the number of "Kookies" they would buy at each price as the result of each of the following events:

- their weekly income went up \$20
- their girlfriend or boyfriend developed a mad craving for "Kookies"
- the drugstore down the street had a sale on candy bars at 10 cents each
- they heard the price of "Kookies" was going up 25 cents next week

6. Explain that the factors they considered in procedure 5 above are called determinants of demand by economists. When these things change, the number of items people are willing to buy at each price also changes. The determinants of demand demonstrated above are: income, tastes and preferences, the price of substitute goods, and expectations of the future.

7. Explain that each of the situations in procedure 5 above would cause the demand curve to move either to the left (showing a decrease in demand), or to the right (showing an increase in demand). Sketch a new demand curve on your original graph of demand for each situation and explain each shift in demand to your students. If needed, demonstrate the shifts by repeating procedures 2 and 4.

New demand curve:

- an increase in income would cause the demand curve to shift to the right (income)
- an increase in your girlfriend's or boyfriend's desire for "Kookies" would cause your demand curve to shift to the right assuming you bought more for your friend (tastes and preferences)
- a sale on candy bars would cause the demand curve to shift to the left because many people would substitute candy for "Kookies" (the price of substitutes)  
 the expectation of a future price increase would cause today's demand curve to shift to the right as customers stock up on "Kookies" before the price goes up (expectations of the future)

8. Distribute Activity 32. Have your students complete these either as individuals, as pairs, in small groups, or as homework. When they have finished this work, go over the results in class. Review your explanation of shifts in demand and discuss how the situations in the worksheet demonstrate examples of these shifts.

**EVALUATION:**

Evaluate the lesson using either Activity 33 or Activity 34.

Name \_\_\_\_\_

## ACTIVITY 31

### The demand for "Kookies"

#### PART A

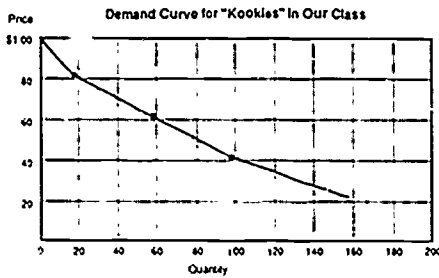
Suppose a bakery close to your school has decided to produce and market large (6 inches in diameter) chocolate chip cookies which they have given the trade name "Kookies." The owners of the firm have not decided what price to charge. They want to know how many they could sell at various prices.

To help them find out the information they want to know, complete the table below.

At this price	I would probably buy this many "Kookies" per week
\$ .20 each	150
.40 each	100
.60 each	60
.80 each	20
1.00 each	0

#### PART B

Construct a graph to show the total number of "Kookies" students in your class are willing to buy at each price.



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Name \_\_\_\_\_

## ACTIVITY 32

### What is happening to the demand for canned tuna?

#### PART I

Mary runs the only grocery store in a 12-block area of a large city. Many of her customers are elderly and don't have much income. Mary sells lots of canned tuna fish. It isn't too expensive, and it is a good source of protein. Mary charges 79 cents a can all the time, but she has noticed that her sales have changed from time to time.

Explain why the demand for tuna fish changed in each of the following situations.

- When hamburger went up 20 cents a pound, Mary sold about 30 more cans of tuna fish each day. This probably happened because \_\_\_\_\_ when the price of hamburger went up, some of Mary's customers probably substituted tuna fish.
- Mary sells about 100 more cans of tuna fish a day at the start of a month than at the end of a month. This probably happens because \_\_\_\_\_ many retired people receive their income in a check at the beginning of the month, causing them to demand more at that time. By the end of the month, they may be short of money and decide to spend less.
- For a few weeks after there was an article in the newspaper about how healthful tuna fish is, Mary's sales increased 30 cans a day. This probably happened because \_\_\_\_\_ the article may have caused some of Mary's customers to change their tastes or preferences for tuna if they thought it would help them stay healthy.
- There was a truck drivers' strike and food deliveries were interrupted. Mary sold 100 cans more a day. This probably happened because \_\_\_\_\_ some of Mary's customers probably decided to stock up on tuna because they were afraid they would not be able to buy it in the future if the strike lasted a long time.

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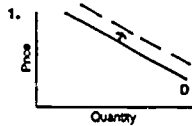
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#### PART II

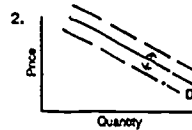
The graphs below represent the demand curve for Mary's canned tuna fish on a regular day.

Draw a new line to show what would happen to the demand curve in each of the situations described on the previous page. Would it shift to the left or right?

In the blank space provided, write the determinant of demand for each situation.



Determinant: Price of substitute



Determinant: Change in income



Determinant: Change in preference or taste



Determinant: Expectation for the future

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Name \_\_\_\_\_

## ACTIVITY 33

### Factors affecting demand

Cut out advertisements from newspapers or magazines for two totally unrelated products. Consider the advertisements, and then answer each of the following questions.

Be sure to attach the advertisements to your assignment when you hand it in.

- To which of the four determinants of demand (income, tastes and preferences, the price of substitutes, or expectations of future changes) is each advertisement trying to appeal? Explain how you know this.

Advertisement No. 1 appeals to \_\_\_\_\_ I know this because \_\_\_\_\_

Advertisement No. 2 appeals to \_\_\_\_\_ I know this because \_\_\_\_\_

- What would you estimate the price of each product is now?

Product No. 1 is \_\_\_\_\_ Product No. 2 is \_\_\_\_\_

- Restate the law of demand in your own words.

- If the price of each of these products went up 5%, which one do you believe would suffer the greater loss in sales? Explain why.

I believe product No. \_\_\_\_\_ would have the greater percentage loss in sales because \_\_\_\_\_

- Describe how firms that sell the product you identified in question No. 4 might try to reduce their sales loss.

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Name \_\_\_\_\_

## ACTIVITY 34

### Comprehension quiz, lesson 9

#### PART I

Answer the following by placing the letter of the correct definition in the blank in front of each term.

Term	Definition
1. demand	A. products that may not be exactly the same but which may be used for the same use
2. determinant of demand	B. a graphic representation of the number of items that will be demanded at various prices
3. demand curve	C. the willingness and ability to buy something
4. substitutes	D. a belief in future changes that affects one's willingness to buy products now
5. expectations	E. people will buy more units of a good at a lower price than at a higher price
6. law of demand	F. anything, other than price, that affects customers' willingness to buy a product

#### PART II

Study the graph to the right and answer the following questions.

7. How many pairs of socks would be sold at a price of \$4?

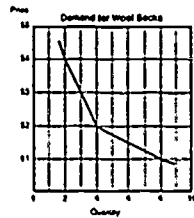
\_\_\_\_\_ pairs

8. If there were a cold spell, would the demand curve for socks move to the left or to the right?

It would move to the \_\_\_\_\_.

Explain how the law of demand is demonstrated by the graph.

The curve shows the law of demand because more socks are demanded at lower prices than at higher prices.



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# LESSON 10

## *How much should I produce? (supply)*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Supply

Law of Supply

Increasing Costs of Production

Supply Curve

Determinants of Supply

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Define supply and demonstrate their knowledge of how the law of supply operates
- Explain how a firm's willingness to supply products is a function of price and its costs of production
- Identify factors that result in increasing costs of production
- Construct and read a supply curve
- Recognize situations that result in a shift in supply and determine the direction and economic consequences of the shift
- Apply the principle of increasing costs of production to solve problems related to an entrepreneurial enterprise

### **RATIONALE:**

Entrepreneurs produce and offer products for sale when they have the expectation of earning a profit. This expectation depends on the price that can be charged for their products and on their costs of production. As businesses

produce more products, they are likely to experience increasing costs per unit. Eventually a level of production is reached where the cost of making another item is greater than the price it can be sold for. At this point, the firm should stop producing more goods. Entrepreneurs need to be aware of the relationship between price, costs, and the number of products that should be produced and offered for sale.

### **MATERIALS:**

- Activity 35 "The supply of 'Kookies' "
- Activity 36 "Arnold's fossil farm"
- Activity 37 "What is happening to the supply of goods?"
- Activity 38 Comprehension quiz, lesson 10

### **VOCABULARY:**

Supply

the schedule of how much producers are willing and able to sell at all possible prices in a given period of time

Law of Supply

everything else being equal, more products will be offered for sale at a higher price than at a lower price

Increasing Costs of Production

as more items are produced a point is reached where each additional unit costs more to make than the preceding unit

Supply Curve

a graphical representation that shows the number of products that will be supplied at various prices

Determinant of Supply	factor that causes the supply of a product to change
Shift in Supply	an increase or decrease in supply that results from a change in the determinants of supply for a product

**PROCEDURES:**

1. Explain the terms *supply* and the *law of supply* to the class.
2. Distribute a copy of Activity 35 to each student. Ask the students to read the paragraph at the top of the page and to study the table. Work through the exercise with your students or have the students complete the exercise in small groups. Be sure to go over the correct answers together and to place a copy of the supply curve on the board. Discuss the implications of increasing costs of production.
3. Plot the supply curve for "Kookies" on the board. Ask your students what would happen to the number of "Kookies" they would be willing to supply at each price in each of the following situations:
  - you find that you are able to sell many more pies at higher prices and earn large profits for each pie
  - the cost of chocolate chips goes down by one-third
  - you hear the school cafeteria is about to start selling large cookies too and you are afraid you will have to lower your price to maintain your sales
4. Explain that economists call the factors considered in procedure 2 determinants of supply. When these things change, the number of items firms are willing to produce and offer for sale at each price also changes. Determinants of supply include changes in the costs of production, changes in the prices of other products that could be made, and expectations of the future.
5. Explain that each of the situations described in procedure 3 above would cause the supply curve

to move either to the left (showing a decrease in supply), or to the right (showing an increase in supply). Sketch a new supply curve on your original graph of supply for each situation and explain each shift in supply to your students.

- an increase in the price you could charge for pies would cause you to allocate your scarce resources to pies, thereby causing the supply curve for cookies to shift to the left
  - a decrease in the cost of chocolate chips would result in an increase in your unit profit and your willingness to supply products; the supply curve would shift to the right
  - the expectation that competition will result in lower prices will discourage you from making the product, and the supply curve will shift to the left
6. Distribute copies of Activity 36. Divide the class into small groups and ask them to read and discuss the handout. Tell them to determine how the story demonstrates the law of supply. Each group should choose a spokesperson who will explain his or her thoughts to the rest of the class. Spend time explaining how Arnold's problems are typical of those experienced by other business people.
  7. Ask students to explain what would happen to the number of fossils Arnold would supply in each of the following cases. How would his supply curve shift in each situation? Sketch these shifts in his supply curve on the board.
    - Arnold's salary at his regular job went up to \$30 an hour
    - The cost of getting to Wyoming increased by \$100
    - The number of specimens he could find per unit of time grew by 50 percent

**EVALUATION:**

Evaluate the lesson by using Activity 37 or Activity 38.

Name \_\_\_\_\_

## ACTIVITY 35

### The supply of "Kookies"

Suppose you own a small bakery near the local high school. In recent months you noticed that your employees have little to do in mid-afternoon before the evening rush. You wonder if baking large cookies (which you would call "Kookies") to sell to students on their way home from school might be a good way to keep your employees busy and to earn more profit.

You have studied how your workers use their time and believe they could bake 100 cookies a day without having to cut back on any other products they make. To produce more than 100 cookies, they would have to reduce the production of other baked goods because your

firm has only so many ovens and workers.

Another possibility would be to pay some workers overtime to stay late to bake cookies.

You conclude that if your sales of cookies grow over 100 a day, you will have to charge progressively higher prices to make up for your increasing costs of production.

The table below shows how many cookies you would be willing to offer for sale at various prices.

Study this information and answer the questions below.

At this price	I would supply this many "Kookies" per week
\$ .20 each	none
40 each	500
60 each	700
80 each	900
1.00 each	1,100

1. Why wouldn't you supply any cookies at 20 cents each?

The ingredients for the cookies probably cost more than 20 cents per cookie.

2. Why do you require a higher price to produce more than 100 cookies a day (500 a week)?

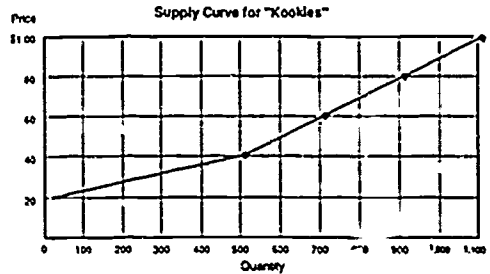
To produce more than 100 cookies a day I have to produce fewer other products which reduces the profit I can earn on them. Therefore I require a higher price to have more than 100 cookies.

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3. Plot the information from the preceding table on the graph below.



4. Explain how the graph of a supply curve demonstrates the law of supply.

As the price increases from 40 cents to \$1.00, the graph shows that the number of cookies supplied will increase from 500 to 1,100.

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Name \_\_\_\_\_

## ACTIVITY 36

### Arnold's fossil farm

Several years ago Arnold inherited over 1,000 acres of land in Wyoming from his uncle. When he went to look at it, he found it was on the side of a mountain about 50 miles from any town. The soil was loose, rocky, and nothing grew on it except a few weeds. When Arnold climbed up the mountain, he kept slipping and getting dirty. He was really depressed. He didn't think the land was worth anything. While he was climbing, he picked up an interesting looking rock and took it home with him. Later he put the rock on a shelf and didn't think any more about it for many months.

The next winter Arnold invited a friend who was a geologist to visit him. The friend happened to notice Arnold's rock and became very excited. He identified it as a fossil of a brachiopod from the Cambrian period. He said it was one of the best specimens he had ever seen and was certainly worth \$10 to \$20. Arnold thought there might be some value in the land after all.

The following summer Arnold went back to Wyoming and climbed all over his property. He found ten fossils the first day he was there just by looking around the bottom of the land. On the following days he went farther

up the hill and found more specimens. Arnold discovered that he could expect to find about five fossils per acre, but the farther up the mountain he went, the more trouble they were to find. Arnold gathered about a hundred specimens and sold them to a scientific supply firm for \$10 each. The money paid for the cost of his trip (\$500) and left him several hundred dollars. Arnold thought that was the end of his business because he assumed he had found most of the fossils he could without actually digging up his land.

A year later Arnold passed by his land and stopped to look. To his surprise he found that someone had uncovered more fossils. He realized he would be able to "harvest" fossils from his property every year. He could really run it like a business.

This year Arnold took time off from his job where he earns \$20 an hour and spent five weeks in June and July on his property. He carefully timed himself as he looked for specimens.

He organized the information he gathered on the table below.

Fossils found	Time spent
first 100	20 hours
next 100	30 more hours
next 100	40 more hours
next 100	50 more hours
next 100	60 more hours
Total found = 500	Total hours = 200

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After collecting 500 specimens, Arnold went home to his regular job. He sold them for \$5,000. Arnold's trip cost \$750 (\$500 transportation and \$250 a week for the five weeks), plus his lost salary from his regular job (\$20 x 40 hours x 5 weeks = \$4,000).

He wants to figure out how much time he should take off next year to look for fossils.

1. Why did it take Arnold longer and longer to find more fossils?

He had to go higher up the hill each time which took more time.

2. How does this situation demonstrate the principle of increasing costs of production?

To Arnold, time is money. The longer it took him to find fossils, the greater his added costs.

3. What would you recommend for Arnold? Explain why.

Arnold should spend 90 hours looking for fossils. If it takes him 50 hours to find the next 100, it would cost him as much in lost wages as he could earn from the fossils. (20 x 50 hours = \$1,000 in lost wages, 100 fossils sold at \$10 each = \$1,000)

4. If the scientific supply firm was willing to pay Arnold \$15 each, how would it affect the number of specimens he would supply?

If the firm would pay \$15, Arnold would probably spend more time looking for fossils.

5. How does this situation demonstrate the law of supply?

This situation demonstrates the law of supply because Arnold would be willing to supply more fossils as the price goes up.

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Name \_\_\_\_\_

## ACTIVITY 37

### What is happening to the supply of goods?

#### PART I

Mary runs the only grocery store in a 12-block area of a large city. Many of her customers don't have much income, so she finds it difficult to raise her prices without losing sales. She has found over the years that her willingness to supply various items has changed.

Explain why Mary's supply changed in each of the following situations.

1. When the cost of electricity went up, she took out one of her two freezers and offered fewer frozen foods for sale.

The increase in the cost of electricity reduced the quantity of frozen foods Mary would offer for sale.

2. When Mary found she could sell candy to elementary school children who were going to school, she restocked half her frozen shelves with candy.

The expectation for increased profits caused Mary to offer more candy for sale and less frozen food.

3. When Mary found she could rent the store next door for only \$600 a month, she increased the size of her store and her selection of products by one half.

The low rent for the store caused Mary to increase the quantity of all goods she offered for sale.

4. When Mary heard that a big grocery store was going to move in down the block, she stopped renting the store next door and cut her selection back to what it had been in the past.

The expectation for competition and a lower profit margin caused Mary to decrease the quantity of all goods she offered for sale.

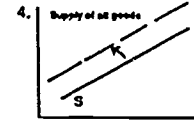
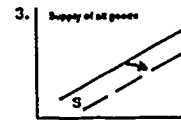
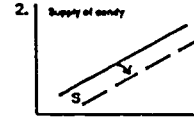
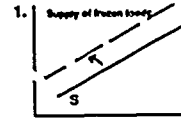
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#### PART II

Each graph below represents the supply curve for one or more of Mary's products. Draw a new line to show what happened to the supply curve in each of the cases on the preceding page.



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Name \_\_\_\_\_

## ACTIVITY 38

### Comprehension quiz, lesson 10

#### PART I

From the list below, select the phrases that correctly complete each sentence and write the phrases in the appropriate blanks.

supply	increasing cost of production	supply curve	left
right	additional revenue	law of supply	additional cost

- The \_\_\_\_\_ law of supply \_\_\_\_\_ states that firms will offer more products for sale at higher prices than at lower prices.
- Firms will supply more products as long as the \_\_\_\_\_ additional cost \_\_\_\_\_ of making another item does not exceed the \_\_\_\_\_ additional revenue \_\_\_\_\_ generated by the sale of that item.
- Firms are often unwilling to supply additional products unless they are able to charge higher prices because of \_\_\_\_\_ increasing cost of production \_\_\_\_\_.
- The number of items a firm is willing to offer for sale at various prices is called \_\_\_\_\_ supply \_\_\_\_\_.
- A graphic representation of the number of items that will be offered for sale at various prices is called a \_\_\_\_\_ supply curve \_\_\_\_\_.
- Any event that increases the cost of production will cause the supply curve for that product to shift to the \_\_\_\_\_ left \_\_\_\_\_.

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#### PART II

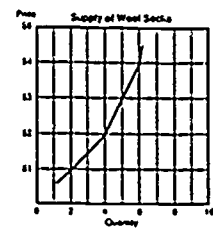
Base your answers to the following on the graph to the right.

7. How many pairs of socks would be supplied at a price of \$4?
- \_\_\_\_\_ pairs

8. If there was a sickness that killed many sheep, would the supply curve for wool socks shift to the left or to the right?
- It would move to the \_\_\_\_\_ left \_\_\_\_\_.

9. Explain how the law of supply is demonstrated by the graph.

The number of pairs of socks that will be supplied increases with the price \_\_\_\_\_.



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# LESSON 11

## *What's the right price? (market equilibrium)*

### TIME REQUIRED:

Two or Three Class Periods

### CONCEPTS:

Interaction of Demand and Supply  
Surpluses and Shortages  
Market Equilibrium  
Equilibrium Price  
Changes in Equilibrium Price

### INSTRUCTIONAL OBJECTIVES:

Students will:

- Explain how differences in the quantities of a product demanded and supplied will result in either surpluses or shortages of that product
- Explain why surpluses will cause prices to fall and why shortages will cause prices to rise until an equilibrium price is reached
- Given a graph of demand and supply, locate the equilibrium price and state the quantity of the product that will be supplied and sold at that price
- Use data provided to construct a graph showing the equilibrium price for a product
- Determine how shifts in supply and demand change the equilibrium price and quantity of the product that is supplied and sold

### RATIONALE:

Entrepreneurs exist in markets made up of consumers who demand the products that firms supply. The price that competitive firms are able to charge is determined by the interaction of market demand and supply. A firm

that charges more than the market equilibrium price will find it is unable to sell all of its production. If other firms charge less than the market equilibrium price they will have more customers than they have products to sell. Entrepreneurs should realize that equilibrium prices change over time as supply and demand shift. Most businesses have limited control over the prices they can charge.

### MATERIALS:

- Activity 39 "Demand for apples and equilibrium"
- Activity 40 "Supply of apples and equilibrium"
- Activity 41 "The demand and supply for 'Kookies' "
- Activity 42 "Demand and supply table"
- Activity 43 Comprehension quiz, lesson 11

### VOCABULARY:

Surplus	condition that results when the quantity of a product supplied at a particular price is greater than the quantity demanded at that price
Shortage	condition that results when the quantity of a product demanded at a particular price is greater than the quantity supplied at that price
Market Equilibrium	condition that exists when the quantity of a product demanded and quantity supplied are the same at a given price

Equilibrium Price	the price level at which the quantity of a product demanded equals the quantity supplied
Point of Equilibrium	the point of intersection between a product's demand and supply curves which indicates the equilibrium price and the quantities of the product that will be supplied and sold at that price

### PROCEDURES:

1. Name a specific local store where your students frequently shop and a particular product they often buy from that store. Ask students to write on a piece of paper the price of the product named along with an estimate of the number they personally buy each year. Choose another price that is roughly 50 percent more than the current price. Ask your students to write the number of items they believe they would buy at this higher price.
2. Collect the papers and tabulate the results on the board as follows: total the number of the product your students estimate they currently demand; then total the number they would buy at the higher price.
3. Ask: What happens to the quantity demanded (i.e., the quantity the class is willing and able to buy) when the price increases? Do you think the higher price would encourage the store to offer more of the product for sale? Discuss how this situation would result in a surplus of the product in a store.
4. Ask: What do you think would happen to the quantity demanded if the price should drop to \_\_\_\_\_ (name a price 50 percent lower than the current price)? What effect is this likely to have on the quantity the store is willing to supply? Discuss how this situation would result in a shortage in the store.
5. Define and explain the concept of market equilibrium. Discuss how surpluses and shortages tend to force prices toward the equilibrium price. Demonstrate how shifts in the demand and supply curves would result in new points of equilibrium quantities and equilibrium prices.
6. Instruct students to organize into pairs. Distribute copies of Activity 39 to one student in each pair and Activity 40 to the other. Tell them they are to work together to complete their worksheets. Read through the directions with them and answer questions about what they are to do. Be sure they

understand that there is one buyer (Activity 39) and one seller (Activity 40) in each pair. Each has information the other needs to complete the third column of the table. If students need additional help to get started, help them complete the top row of the table as follows:

- Ask students who have Activity 39 (buyer) how many apples they are willing to buy at \$10 a bushel. (20 bushels)
  - Tell the students with Activity 40 (seller) to write this number in the column under the heading "Quantity demanded."
  - Ask the sellers how many apples they are willing to supply at \$10 a bushel. (60 bushels)
  - Have the buyers write this number in the column under the heading "Quantity supplied."
  - Ask if this condition would result in a surplus or shortage (surplus—quantity supplied would be greater than the quantity demanded). Instruct students to write the word "surplus" in the appropriate blank.
  - Ask: How large is the surplus? (40 bushels). Have students write the number in the appropriate space.
7. When the students have completed the activity sheet, discuss their answers. Have them identify the point of equilibrium on their graphs.
  8. Suggest that the events listed below happened. Discuss their impact on the demand, supply, and equilibrium price for apples.
    - A cold winter cuts the apple harvest in half. (This would cause the supply curve to shift to the left; the price would increase, and the quantity demanded and sold would decrease.)
    - There is a great increase in the demand for all kinds of pies. (This would cause the demand curve to shift to the right; the price would increase, and the quantity supplied and sold would increase.)
    - A new fertilizer increases the yield of apples per tree by 15 percent. (This would cause the supply curve to shift to the right; the price would decline, and the quantity demanded and sold would increase.)

- There was a report printed in many papers that said apples were treated with a chemical that might cause cancer. (This would cause the demand curve to shift to the left; the price would decrease, and the quantity supplied and sold would decrease.)

### EVALUATION:

Evaluate the lesson by using Activity 41, Activity 42, or Activity 43.

Name \_\_\_\_\_

## ACTIVITY 39

### Demand for apples and equilibrium

Assume you want to buy apples for your apple pie bakery. The other students you are working with want to sell them. The number of apples you are willing to buy and the number bushels are willing to sell are listed on the price.

Below you will find a table that lists possible prices for apples in the first column. The next column states the number of apples you would be willing to buy at each

of these prices. The third column is blank. You must fill in that column by asking the other students how many bushels will sell at each price. The final column asks you whether there would be a surplus or a shortage at each price and how large that surplus or shortage would be. When you finish the table, answer the questions below.

Demand and Supply for Apples

Price	Quantity demanded	Quantity supplied	Surplus or shortage	Amount
\$10 a bushel	20 bushels	60	surplus	40
8 a bushel	30 bushels	50	surplus	20
6 a bushel	40 bushels	40	E	0
4 a bushel	50 bushels	30	shortage	20
2 a bushel	60 bushels	20	shortage	40

1. At what price will the number of bushels of apples supplied and demanded be the same?

\_\_\_\_\_ \$6.00 \_\_\_\_\_

2. How many bushels of apples will be supplied and demanded at this price?

\_\_\_\_\_ 40 \_\_\_\_\_ bushels

3. Would there be a surplus or a shortage at any higher price?

There would be a \_\_\_\_\_ surplus \_\_\_\_\_

(Continued)

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4. Would there be a surplus or a shortage at any lower price?

There would be a \_\_\_\_\_ shortage \_\_\_\_\_

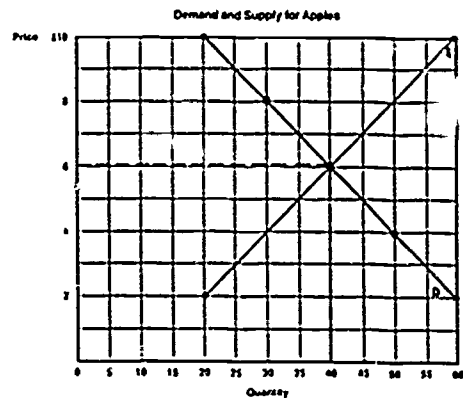
5. Explain why a surplus would tend to force the price down.

A surplus would encourage businesses to lower prices to increase the number of products that can be sold.

6. Explain why a shortage would tend to force the price up.

A shortage would encourage consumers to offer higher prices rather than tolerate an unmet need which they can tolerate.

7. Draw demand and supply curves for apples on the graph below using the data on the table you completed on the previous page.



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Name \_\_\_\_\_

## ACTIVITY 40

### Supply of apples and equilibrium

Assume you want to sell apples you will grow and harvest. The other student you are working with wants to buy them. The number of apples he/she is willing to buy and the number you are willing to sell depend on the price.

Below you will find a table that lists possible prices for apples in the first column. The next column states the number of apples you would be willing to sell at each

of these prices. The third column is blank. You must fill in this column by asking the other student how many he or she will buy at each price. The final column asks you whether there would be a surplus or a shortage at each price and how large that surplus or shortage would be. When you finish the table, answer the questions below.

Demand and Supply for Apples

Price	Quantity supplied	Quantity demanded	Surplus or shortage	Amount
\$10 a bushel	60 bushels	20	surplus	40
8 a bushel	50 bushels	30	surplus	20
6 a bushel	40 bushels	40	E	0
4 a bushel	30 bushels	50	shortage	20
2 a bushel	20 bushels	60	shortage	40

1. At what price will the number of bushels of apples supplied and demanded be the same?

\_\_\_\_\_ \$6.00 \_\_\_\_\_

2. How many bushels of apples will be supplied and demanded at this price?

\_\_\_\_\_ 40 \_\_\_\_\_ bushels

3. Would there be a surplus or a shortage at any higher price?

There would be a \_\_\_\_\_ surplus \_\_\_\_\_

(Continued)

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4. Would there be a surplus or a shortage at any lower price?

There would be a \_\_\_\_\_ shortage \_\_\_\_\_

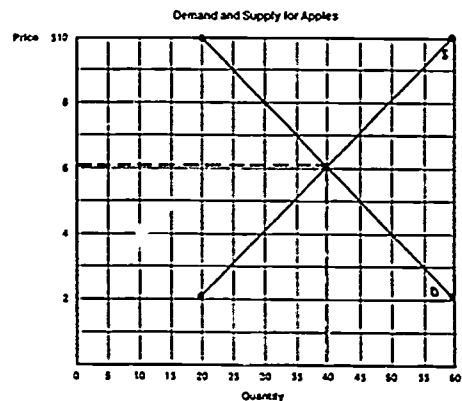
5. Explain why a surplus would tend to force the price down.

A surplus would encourage businesses to lower prices to increase the number of products that can be sold.

6. Explain why a shortage could tend to force the price up.

A shortage would encourage consumers to offer higher prices rather than tolerate an unfilled want which they can finance.

7. Draw demand and supply curves for apples on the graph below using the data on the table you completed on the previous page.



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Name \_\_\_\_\_

## ACTIVITY 41

### The demand and supply for "Kookies"

A bakery has decided to sell large chocolate chip cookies called "Kookies" to local students.

A survey was taken among students who attend a nearby school. The results are provided on the table below. (Your teacher may ask you to use the data you

gathered in your own class if you did Lesson No. 8.) The number of cookies the bakery would be willing to supply at different prices is listed in the table.

Study this information and answer the following questions.

At this price	The quantity demanded would be (use the blank for your class's values)	The quantity supplied would be
\$ .20 each	1,100 _____	none
.40 each	900 _____	500
.60 each	700 _____	700
.80 each	500 _____	900
1.00 each	300 _____	1,100

1. At a price of 80 cents, how many "Kookies" would be demanded? \_\_\_\_\_ 500 \_\_\_\_\_  
(based on data provided; class data will vary)

2. At a price of 80 cents, how many "Kookies" would be supplied? \_\_\_\_\_ 900 \_\_\_\_\_

3. Would there be a surplus or a shortage of "Kookies" at a price of 80 cents?

There would be a \_\_\_\_\_ surplus \_\_\_\_\_ of "Kookies."  
(based on the data provided)

4. How large would the surplus or shortage be? \_\_\_\_\_ 400 \_\_\_\_\_  
(based on the data provided)

5. Would the price tend to go up or \_\_\_\_\_ down \_\_\_\_\_ from 80 cents?  
(based on the data provided)

6. What is the equilibrium price in this example? \_\_\_\_\_ 80.00 \_\_\_\_\_  
(based on the data provided)

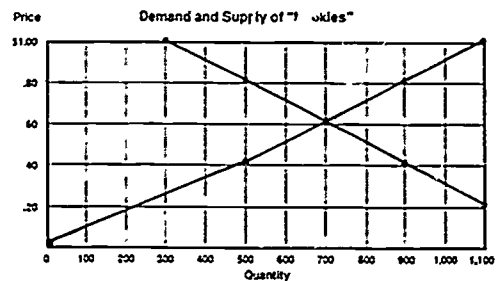
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7. What quantity of "Kookies" will be sold at the equilibrium price? \_\_\_\_\_ 700 \_\_\_\_\_  
(based on data provided)

8. Use the data from the table to draw a graph of the demand and supply of "Kookies."



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Name \_\_\_\_\_

**ACTIVITY 42***Demand and supply table*

Fill in the grid below by writing the correct term in each box:  
 "Move left"—"Move right"—or "Stay the same" for demand and supply.  
 "Increase"—"Stay the same"—or "Decrease" for the equilibrium price.

Event	The demand curve would	The supply curve would	The equilibrium price would
The weekly allowance of students who buy "Kookies" goes up by \$5	move right	stay the same	increase
One of the cooks in the bakery quits and the others have more work to do	stay the same	move left	increase
Another store that sold snacks to students in the area goes out of business	move right	stay the same	increase
The cost of gas to heat the bakery's ovens goes down 50%	stay the same	move right	decrease
The head cook in the school cafeteria gets sick and is replaced by a cook who makes awful food	move right	stay the same	increase
There is a 25% increase in the cost of flour	stay the same	move left	increase

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Name \_\_\_\_\_

**ACTIVITY 43***Comprehension quiz,  
lesson 11***PART I**

- At a price above the equilibrium price, there will be:
  - a shortage of \_\_\_\_\_
  - a surplus of \_\_\_\_\_
  - as many \_\_\_\_\_ added as supposed
- At the market equilibrium price, we:
  - know the firm is earning a profit
  - know the firm is making a loss
  - don't know if the firm is earning a profit or making a loss
- If there is a shortage of a product, then its current price is:
  - above the equilibrium price

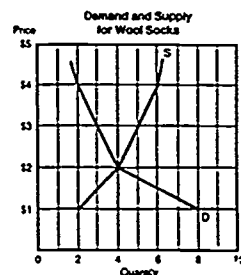
- below the equilibrium price
- equal to the equilibrium price

- If many more people want to buy a product, its demand curve will move to the right and its equilibrium price will:
  - go up
  - stay the same
  - go down
- If the cost of making a product increases, its supply curve will move to the left and its equilibrium price will:
  - go up
  - stay the same
  - go down

**PART II**

Base your answers to the following on the graph to the right.

- What is the equilibrium price for wool socks?  
\$ \_\_\_\_\_
- How many pairs of socks will be bought and sold at the equilibrium price?  
\_\_\_\_\_ pairs of socks
- At a price of \$4, would there be a surplus or a shortage of wool socks?  
There would be a \_\_\_\_\_ surplus \_\_\_\_\_
- How large would this surplus or shortage be?  
\_\_\_\_\_ pairs of socks



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# LESSON 12

## *Profits and entrepreneurship*

### **TIME REQUIRED:**

One or Two Class Periods

### **CONCEPTS:**

Total Revenue

Cost of Production

Profit

Return on Investment

Fixed Costs (Optional Activity)

Variable Costs (Optional Activity)

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Discuss the role of profit as the basic incentive for running a business in the United States
- Compute the cost of production for a given business venture
- Distinguish between fixed and variable costs of production and give examples of each (Optional Activity)
- Identify and explain alternative measures of profit and their implication for measuring the profitability of an entrepreneurial enterprise (Optional Activity)
- Compare revenue and cost data to determine profitability of an entrepreneurial venture

### **RATIONALE:**

People become entrepreneurs for many reasons, including the desire to earn a profit. A commonly used measure of profit is the difference between a firm's revenue and its costs. Such a simple definition can be misleading if it excludes considerations of alternative uses for the entrepreneur's time or money. A person who spends 70

hours a week working in a business should not exclude the value of his or her time and labor from the measure of the firm's costs. Someone who invests \$100,000 in a firm must realize that the same money deposited in a bank would have earned substantial interest. This too should be included in the firm's costs. Entrepreneurs who fail to recognize these facts may overstate the profitability of their firms and as a result underprice their products.

### **MATERIALS:**

- Activity 44 "How big is the profit slice of pie?"
- Activity 45 "How is the pie divided?"
- Activity 46 "Fixed and variable costs" (Optional)
- Activity 47 "Profit projection form"
- Activity 48 "Deciding on a club enterprise" (Optional)
- Activity 49 Comprehension quiz, lesson 12

### **VOCABULARY:**

Profit	the difference between a firm's total revenue and total cost of production
Return on Investment	profit as a percentage of the amount invested in a firm
Total Revenue	selling price multiplied by the quantity sold
Fixed Costs	costs of production that remain the same as the quantity of goods or services produced changes

Variable Costs costs of production that change as the quantity of goods or services produced changes

Total Cost the sum of all costs of production, both fixed and variable

graphs. Have them discuss why they thought the amount of profit earned by retailers was more (or less) than that shown on the graph. Discuss the implications of the small profit margin for entrepreneurs.

**PROCEDURES:**

1. Select several students and ask them why they might consider becoming an entrepreneur or why they think anyone would want to become an entrepreneur. Most will probably say they want to get rich or earn a profit. Through discussion, help the students understand that the profit motive is one of the basic incentives for becoming an entrepreneur. (For discussion of other incentives, see Lesson 2.)
2. Write the definition of profit on the board. Help students to define "total revenue" and "total cost." (It is not necessary at this time that students understand the difference between fixed and variable costs; they should, however, know the major categories of expense that are included in the cost of production, e.g., labor, rent, utilities, etc.)
3. Distribute Activity 44. Go over the instructions with the students; then have them complete the handout individually or working in pairs. Explain that the circumference of the circle is divided into 100 equal parts.
4. Allow several minutes for the students to complete the pie graph. Ask several students to tell the class how much of the pie they thought was profit. How much was spent to pay the cost of merchandise? How much to pay for operating expenses?
5. Project a transparency of Activity 45 (or use the activity as a handout). Tell students that the graph shows the results of a survey of U.S. retailers. Have the students compare this with their pie

6. Choose two local firms with which the students are familiar—one that is doing well, and one that is not. Ask the students to suggest reasons for the second firm's apparent failure. Have the students suggest steps that the failing business could take to improve its profits. List their suggestions on the board using a chart similar to the following:

Reasons for failure	Actions needed to increase profits
1.	1.
2.	2.

7. *Optional Activity: Fixed and Variable Costs*
  - From the list compiled in procedure 6, select items as examples of fixed and variable costs of production.
  - Write the definitions of fixed costs and variable costs on the board. Have the students give additional examples of each.
  - Distribute copies of Activity 46. Have students complete the exercise in small groups or as an entire class, discussing the answers as they work through the items.

**EVALUATION:**

*Lesson without Optional Activity.* Have students complete Activity 47 or select appropriate items from Activity 49.

*Lesson including Optional Activity.* Have students complete Activity 48 or use Activity 49.

Name \_\_\_\_\_

## ACTIVITY 44

### How big is the profit slice of pie?

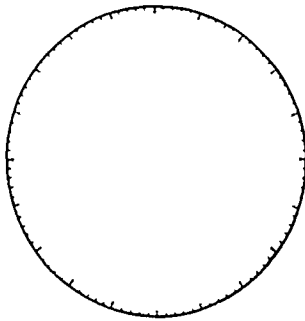
#### INSTRUCTIONS

Assume that you are the owner of a successful retail store, and the circle (pie) below represents the total revenue for one year.

Out of the revenue earned, you must pay for the merchandise you sold. You must also pay operating expenses. Of course, you also expect to make a profit.

Divide the circle (pie) to show what portion of the total revenue you think will be profit, what portion will be used to pay for merchandise, and what portion will be needed for operating expenses.

- To begin, mark off and label a slice of pie to represent the amount of profit you would expect to earn.
- Then mark off and label a slice to represent payment for the merchandise sold.
- The slice left represents the amount set aside for operating expenses. Do you think you have set aside enough for all the expenses associated with operating a business?
- Make any adjustments in the three portions of the pie that you think are necessary.

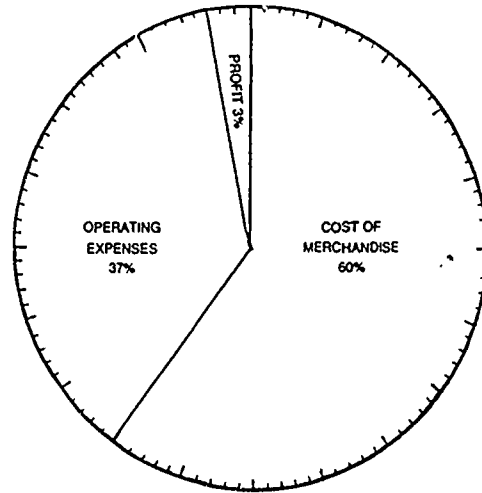


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## ACTIVITY 45

### How is the pie divided?



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Name \_\_\_\_\_

## ACTIVITY 46

### Fixed and variable costs

Sharon has wanted to own her own pottery shop for a long time. Last year she inherited \$30,000 from her uncle. She used the money to go into business. She worked 50 hours every week making pots and running the store.

At the end of the year, she figured out her profit and was very disappointed. She wrote down all the information she gathered on a sheet of paper and tried to decide what she could do to improve her earnings. Study the data and answer the questions below.

Total revenue (5,000 pots × \$10 each)	\$50,000	
Investment in equipment	15,000	Fixed
Investment in remodeling rented store	5,000	Fixed
Cost of clay and other materials used	9,000	Variable
Cost of electricity and utilities	3,200	Variable
Wages and benefits for one part-time helper	6,400	Variable
Rent	4,800	Fixed
Insurance	1,200	Fixed
Advertising	1,800	Fixed
Bookkeeping service	3,600	Fixed
Other costs	2,000	Mixed
<b>Total Expenditures</b>	<b>\$2,000</b>	

1. Identify Sharon's costs as fixed, variable, or mixed by writing the correct word in the blank after each cost line.

2. How do you think Sharon should account for the value of her own time and labor?

Answers will vary but should reflect realization that Sharon's time is worth something, and its value should not be regarded as profit. It should be added to the other costs.

(Continued)

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3. How much do you think Sharon could have earned if she had deposited her \$30,000 in a bank? Answers will vary. (Example: A time deposit at 8% would have earned \$2,400.)

4. Sharon looked at what she spent and what she took in and figured she had lost \$2,000. Why was she wrong? The investment in equipment and remodeling should not all be assigned as a cost in the current year. Also, she did not include the value of her time.

5. If Sharon doesn't think her business is going to get any better, should she stay in business? Explain why, or why not. She should consider getting out of business and working for someone else who would pay her more or require her to work fewer hours.

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Name \_\_\_\_\_

## ACTIVITY 47

### Profit projection form

#### PART I

Suppose your club wants to earn money by selling quarter-pound hamburgers at local basketball games.

You believe you could sell 3,000 hamburgers during the 12-game season at a price of \$1.50 each. You must rent a booth at the gymnasium for \$50 per night. Labor

will be supplied free by members of the club. You need to predict your costs and profits. Complete the form below.

Check the prices at your local grocery stores for the food items included on the list.

Rent for a booth for 12 nights .....	\$ _____
Cost of ground beef for 3,000 hamburgers .....	\$ _____
Cost of 3,000 hamburger buns .....	\$ _____
Ketchup (one 22 oz. bottle per 50 hamburgers) .....	\$ _____
Mustard (one 16 oz. bottle per 100 hamburgers) .....	\$ _____
Pickles (one 32 oz. bottle per 50 hamburgers) .....	\$ _____
Onions (one pound per 50 hamburgers) .....	\$ _____
Paper napkins (one per hamburger) .....	\$ _____
<b>Total cost of producing 3,000 hamburgers .....</b>	<b>\$ _____</b>
<b>Total revenue for selling 3,000 hamburgers .....</b>	<b>\$ _____</b>
<b>Profit or loss .....</b>	<b>\$ _____</b>

#### PART II

Based on your projections for profit (or loss), would you recommend that your club sell hamburgers to earn money or would you recommend that they undertake some other activity? Why or why not?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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Name \_\_\_\_\_

## ACTIVITY 48

### Deciding on a club enterprise

Suppose your club wants to earn money by selling quarter-pound hamburgers at local basketball games.

You believe you could sell 3,000 hamburgers during the 12-game season at a price of \$1.50 each. You must rent a booth at the gymnasium for \$50 per night. Labor will be supplied free by members of the club. You need to predict your costs and profits. Complete the form below.

Check the prices at your local grocery stores for the food items included on the list.

Rent for a booth for 12 nights .....	\$ _____ ( )
Cost of ground beef for 3,000 hamburgers .....	\$ _____ ( )
Cost of 3,000 hamburger buns .....	\$ _____ ( )
Ketchup (one 22 oz. bottle per 50 hamburgers) .....	\$ _____ ( )
Mustard (one 16 oz. bottle per 100 hamburgers) .....	\$ _____ ( )
Pickles (one 32 oz. bottle per 50 hamburgers) .....	\$ _____ ( )
Onions (one pound per 50 hamburgers) .....	\$ _____ ( )
Paper napkins (one per hamburger) .....	\$ _____ ( )
<b>Total cost of producing 3,000 hamburgers .....</b>	<b>\$ _____</b>
<b>Total revenue for selling 3,000 hamburgers .....</b>	<b>\$ _____</b>
<b>Profit or loss .....</b>	<b>\$ _____</b>

1. Identify each of the costs above as fixed or variable by placing the letter "F" or "V" in the parentheses at the end of each cost line.

2. If you had to pay workers a total salary of \$100 a night instead of having volunteers from your club, what would happen to your profit? Should you continue to sell hamburgers in this case? Explain your answer.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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Name \_\_\_\_\_

## ACTIVITY 49

### Comprehension quiz, lesson 12

#### PART I

Complete the following by circling the letter of the best answer.

1. The correct formula for finding a firm's profit is.
- a. profit = total revenue - total cost
- b. profit = (price × number sold) - cost per item
- c. profit = (cost per item - price) × number sold

2. Many entrepreneurs overestimate their profits because they:
- a. don't keep records of their sales
- b. don't consider the value of their time
- c. don't try to control their labor costs

3. Resources tend to flow to firms that are efficient and profitable because:

- a. they have a greater need for those resources
- b. they use those resources more quickly
- c. they can afford to pay for those resources

4. If the owners of a firm have no expectation of ever earning a profit, they should:

- a. go out of business and put their money in a bank
- b. try to merge their business with another larger firm
- c. lower their prices so they can save items

#### PART II

Joe makes deliveries in the evening and on Saturdays for a local drug store. By carrying the items, he earned \$30 each week. He saved his money until he had \$4,000. Joe decided to buy a used car with his money. By driving the car, he is able to deliver more items and now earns \$120 a week. Joe believes the car was a wise investment. Write a brief essay that explains why Joe probably is wrong.

Joe is probably wrong because the cost of owning a car in all likelihood exceeds the extra \$40 a week he earns. Insurance alone is likely to cost about \$1,000 a year (or more). He should also realize that the value of the car will decrease over time.

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# LESSON 13

## *What type of business should I start?*

### TIME REQUIRED:

Two Class Periods

### CONCEPTS:

Economic Institutions  
Sole Proprietorship  
Partnership  
Corporation

### INSTRUCTIONAL OBJECTIVES:

Students will:

- Describe the three types of business organizations in a market economy and cite examples from the local community or region
- Compare the advantages and disadvantages of each type of business organization in a market economy

### RATIONALE:

As each entrepreneur makes the decision to start a business, he or she must also decide what type of business organization will be most advantageous for the new business. There are three types of business organizations: sole proprietorship, partnership, and corporation. Many businesses start as sole proprietorships or partnerships and grow to become corporations. The type of business organization can change as the business expands or declines.

Entrepreneurs need to understand the advantages and disadvantages of each type of business organization. Legal liability, tax obligations, and financial responsibilities are all factors that entrepreneurs must review when deciding how to organize the new business.

### MATERIALS:

- Activity 50 "Types of business organizations"

- Activity 51 "Advantages and disadvantages of types of ownership"
- Activity 52 "Entrepreneurship interview guide"

### VOCABULARY:

Economic Institutions	ways of doing things that address the economic decisions of what to produce, how to produce it and who will consume it. Many economic institutions are long-lived and were originally formed in response to economic conditions that may have changed over time
Sole Proprietorship	a form of business organization that is owned and managed by one individual who assumes all risk of loss and receives all profits
Partnership	a form of business organization that is owned by two or more individuals who assume all risk of loss and receive all profit
Corporation	a form of business organization that is created by law, functions as a separate legal entity, and is owned by two or more individuals called stockholders. Stockholders are at risk only for the amount of their financial investment
Franchising	a system by which a firm expands into new neighborhoods and towns (or foreign countries) by



selling the rights to use the company's name and products to individuals. The franchising company provides training services and an advertising campaign for the purchaser of the franchise. In turn, the purchaser agrees to meet certain quality standards, provide certain products, and pay a franchise fee to the franchising organization.

#### **PROCEDURES:**

1. Distribute Activity 50 (or use as a transparency). Review with students the three types of business organizations. Using the local community, give students examples of each type. Stress that although the corporation is usually used by large businesses, there are many more sole proprietorships than any other type of business organization.
2. Distribute Activity 51. Review the information on the activity sheet with the students. Emphasize the legal liability, the tax obligations, and financial responsibilities for the business owner of each type of business organization.

3. Divide the class into groups. Ask each group to compile a list of questions it would like to ask an entrepreneur about his or her business.
4. Ask the groups to share their lists. Write the questions on the blackboard.
5. Distribute Activity 52 or project as a transparency and have students write the guidelines in their notebooks.
6. Invite several entrepreneurs to the next class. Using Activity 52 and the students' compilation of questions, have students interview the entrepreneurs. Students can tape these interviews with both audio and video recorders. Try to include entrepreneurs representing different types of business organizations in the group.

#### **EVALUATION:**

Organize the class in small groups. Using Activity 52 as a guide, have the groups identify and develop profiles of businesses in the local community that are representative of each of the three types of business organizations presented in Activity 50.

## ACTIVITY 50

### *Types of business organizations*

#### Sole proprietorship

A form of business organization that is owned and managed by one individual who assumes all risk of loss and receives all profits.

#### Partnership

A form of business organization that is owned by two or more individuals who assume all risk of loss and receive all profit.

#### Corporation

A form of business organization that is created by law, functions as a separate legal entity, and is owned by two or more individuals called stockholders. Stockholders are at risk only for the amount of their financial investment.

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## ACTIVITY 51

### *Advantages and disadvantages of types of ownership*

Forms of ownership	Advantages	Disadvantages
Sole proprietorship	<ol style="list-style-type: none"> <li>1. Low start-up costs</li> <li>2. Greatest freedom</li> <li>3. All profits to owner</li> <li>4. Owner in direct control</li> </ol>	<ol style="list-style-type: none"> <li>1. Unlimited liability</li> <li>2. Lack of continuity</li> <li>3. Difficulty in raising capital</li> </ol>
Partnership	<ol style="list-style-type: none"> <li>1. Easy to form</li> <li>2. Low start-up costs</li> <li>3. Divided authority</li> </ol>	<ol style="list-style-type: none"> <li>1. Unlimited liability</li> <li>2. Lack of continuity</li> <li>3. Divided authority</li> <li>4. Difficulty in finding suitable partner</li> </ol>
Corporation	<ol style="list-style-type: none"> <li>1. Limited liability</li> <li>2. Specialized management</li> <li>3. Ease of raising capital</li> </ol>	<ol style="list-style-type: none"> <li>1. Close regulation</li> <li>2. Most expensive to organize</li> <li>3. Extensive record-keeping</li> </ol>
Franchise	<ol style="list-style-type: none"> <li>1. Smaller than usual capital investment</li> <li>2. Prior public acceptance of product</li> <li>3. Better than average profit margins</li> <li>4. Management assistance</li> </ol>	<ol style="list-style-type: none"> <li>1. Possible high franchisor fee</li> <li>2. Some loss of independence</li> <li>3. Possible difficulties in cancelling contract</li> </ol>

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## ACTIVITY 52

### *Entrepreneurship interview guide*

1. Name of entrepreneur
2. Name of entrepreneur's business
3. Type of business organization
4. List products of business (goods and/or services)
5. Number of employees
6. List benefits of business to society
7. Chart growth of business since its inception
8. Challenges in operating the business

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# LESSON 14

## *Borrowing decisions and expected returns*

### **TIME REQUIRED:**

One or Two Class Periods

### **CONCEPTS:**

Interest  
Interest Rates  
Investment  
Expected Returns

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Define interest and explain the need for interest
- Explain the relationship between savings and loans
- Identify factors that influence interest rates
- Explain why businesses borrow to make investments
- Compare the cost and expected return for different investment options and decide which investment the firm should make
- Given an example, describe the relationship between interest rates, the expected return of an investment, and a firm's willingness to borrow funds to make the investment

### **RATIONALE:**

Entrepreneurs must possess or have access to funds to start their businesses. They may use their own funds, get others to give them funds for a share of the business and claims on future profits (equity financing); or they may borrow money from others (debt financing) with the contractual obligation to pay back the amount of

money borrowed plus additional dollars called interest payments. Interest is the price of borrowing money and is usually expressed as a rate, e.g., 10 percent (10%). Thus, to borrow \$1,000 for one year at an interest rate of 10 percent will cost the borrower  $\$1,000 + \$100 = \$1,100$ , or  $100/1000 = .10 = 10\%$ . The lender is willing to provide the \$1,000 because he or she wants to give up purchasing power now (\$1,000) for increased future purchasing power (\$1,100). The borrower wants to have money (\$1,000) to spend now and is willing to give up future spending (\$1,100) in order to have \$1,000 today. Thus, the borrower is willing to pay back more money than is borrowed because, as a consumer, he or she values today's purchase more than tomorrow's, or, as an entrepreneur, he or she needs the funds today to start the business and will be willing to pay back more dollars in the future when he or she expects to be earning dollars from the investment.

In the United States economy, the funds that are available for lending come from a pool of funds called "savings." Savings are monies that are not spent but are put aside for the future. Generally these monies are put into a variety of savings instruments by banks, including savings accounts and money market accounts. Banks pay the savers interest on their savings to attract them to their bank. Banks in turn lend these savings to others and charge them a higher rate of interest than the bank pays the saver.

The entrepreneur must consider the costs and benefits of starting a new business. The interest rate on borrowing money is a cost. The rate of return on an investment is computed by dividing the money profits by the amount of money invested (profits/investment = rate of return). The rate of return on the investment should be greater than the rate of interest for the entrepreneur to borrow the money.

**VOCABULARY:**

Interest	payment for the current use of someone else's money
Interest Rate	the percent of the principal of a loan that must be paid by a borrower to a lender in a period of time
Investment	the purchase of capital goods by a business to increase or maintain its ability to produce products and earn a profit
Expected Return	the return as a percent of the cost of an investment an entrepreneur believes an investment will generate
Prime Interest Rate	the rate of interest charged by banks to their large business customers
Variable Rate Loan	the rate of interest on a loan that varies from time to time because of a varying rate of interest in the financial markets

**MATERIALS:**

- A copy of "Money Rates" from a recent *Wall Street Journal*
- Activity 53 "What's the rate of interest?"
- Activity 54 "Interest rates and expected returns"
- Activity 55 Comprehension quiz Lesson 14

**PROCEDURES:**

1. Distribute Activity 53. Ask students to do a survey of area banks to determine interest rates given on savings plans and what that same bank charges on various types of loans. Have them record their findings on the activity sheet.

2. After the students report their findings to the class, ask what the bank does with the money that is deposited. Discuss the "spread" (difference) between the interest rate paid to depositors and the rate charged borrowers. Explain what the spread is used for (cover expenses of the bank and provide a profit).
3. Ask the students to bring copies of the business section of their local newspaper to class. The teacher should obtain a copy of the "Money Rates" from the third section of a recent *Wall Street Journal*. Help the students find the current prime interest rate in the papers. Explain that most business loans are made at the prime interest rate plus some percent (prime + 2%, for example). Only large businesses are able to borrow at prime. Smaller firms are charged a higher rate by banks because of the greater risk of the loan. Be sure to point out the fact that the prime interest rate changes over time, and, therefore, a business may not know what rate it will end up paying when it takes out the loan.
4. Distribute Activity 54 and ask the students to complete it individually, in pairs, or as a class. When the students have finished, discuss the relationship between a firm's expectation of return for an investment and its willingness to borrow funds at different interest rates. Emphasize that a firm should not agree to pay more interest than it expects to earn in additional income. Ask them to consider how the fact that most business loans have variable interest rates affects many firms' demand for credit.
5. *Optional:* You may wish to spend some time discussing how some businesses raise capital through the issuance of stock. Small businesses as well as large ones issue stock.

**EVALUATION:**

Have students complete Activity 55.

Name \_\_\_\_\_

## ACTIVITY 53

### What's the rate of interest?

#### INSTRUCTIONS

Please visit a local bank to determine the interest rate that they provide savers and charge borrowers on various types of accounts. For each option below, give a short description of the savings plan or loan in addition to the rate.

#### Savings Plans

##### I. Savings account

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### II. Money market account

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### III. Certificate of deposit

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### IV. Other \_\_\_\_\_

Rate \_\_\_\_\_

Description \_\_\_\_\_

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#### Types of Loans

##### I. Personal loan

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### II. Commercial loan

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### III. Car loan

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### IV. Mortgage loan

Rate \_\_\_\_\_

Description \_\_\_\_\_

##### V. Other \_\_\_\_\_

Rate \_\_\_\_\_

Description \_\_\_\_\_

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Name \_\_\_\_\_

## ACTIVITY 54

### Interest rates and expected returns

#### INSTRUCTIONS

Write the current prime interest rate in the appropriate space in the fourth paragraph.

Calculate the total interest rate and write the number in the appropriate space in the fourth paragraph.

Ted and Mary opened a florist shop about two years ago. Their business has been quite successful, and they are thinking about expanding. They would like to move out of their rented store into a larger building of their own. They need a delivery truck and a new cooler so they can keep more flowers for their growing sales.

Finally, they would like to replace their old mechanical cash register with a new electronic one that would help keep inventory, tax records, and other accounting data for the business.

Ted and Mary have assets worth \$160,000, which they could borrow against (their home and a rental property),

and \$20,000 in cash. Their firm earned \$40,000 after taxes on total sales of \$220,000 in the past year, most of which they need to support themselves.

They went to several banks that all told them the same thing: They could borrow up to \$150,000 at the prime interest rate (currently \_\_\_\_\_ %) plus an additional 2% for a total interest rate of \_\_\_\_\_ %.

Mary has studied each possible investment and has calculated the return they could be expected to generate.

She has listed her findings on the table below. Study the data provided in the table below and answer the questions that follow.

Investment	Cost	Expected return
New building	\$110,000	15%
Delivery truck	18,000	17%
New cooler	8,000	13%
New cash register and inventory system	6,000	11%

1. Which of these investments should Ted and Mary make at the interest rate they have to pay? (Assume her predictions are correct.)

Answers will vary, depending upon the prime rate \_\_\_\_\_

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2. Explain why firms should always consider expected returns and interest rates before they borrow money to make investments.

To determine whether the loan will enhance or decrease their profits, \_\_\_\_\_

2. Do you believe Ted and Mary should spend all of the \$20,000 they have saved before they borrow from a bank? Explain your answer.

Not necessarily. They may need a cushion of money to spend on unexpected expenses \_\_\_\_\_

4. If the prime interest rate increased by 2% after Ted and Mary borrow \$150,000 from the bank, how much more would they be forced to pay in interest this year if they had a loan that varied with the increase or decrease of the market interest rate? How important do you believe this might be to the financial success of their business? Explain your answer.

Assuming the new and higher rate remains in effect for a year, it will cost \_\_\_\_\_ more in interest this year. (Amount borrowed  $\times$  .02 = answer)

Assuming the new and higher rate remains in effect for a year, it will cost \$4,500 more in interest this year. Amount borrowed  $\times$  .02 = answer (\$150,000  $\times$  .02). If they could pass the increased cost on to the consumer by charging higher prices, they could make about the same profit. If consumers are unwilling to pay higher prices, this will mean low or profits unless cost savings can be secured elsewhere, such as lower labor costs or less or costs for productive resources.

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Name \_\_\_\_\_

## ACTIVITY 55

### Comprehension quiz, lesson 14

#### PART I

Answer the following by circling the letter of the best answer.

- The rate of interest that a borrower must pay depends on all of the following EXCEPT
  - the risk of the loan not being paid back
  - the value of collateral the borrower owns
  - the price of the products the borrower sells
- A firm should borrow money to pay for a new machine if its expected rate of return is
  - greater than the interest rate
  - equal to the interest rate
  - less than the interest rate
- Banks earn money by paying depositors
  - a lower interest rate than they charge borrowers
  - the same interest rate that they charge borrowers
  - a higher interest rate than they charge borrowers
- Lenders demand interest to compensate themselves for:
  - the risk they are taking
  - giving up the use of their money at the present time
  - both a and b
- If the economy is doing well and most businesses expect their profits to grow, we should expect the amount of money borrowed to:
  - decrease
  - increase
  - stay the same

#### PART II

A business named Amalgamated Appliances, Inc. has three investments it is considering borrowing money to finance. At the present time it must pay 18% for any money it borrows. However, if the prime interest rate goes up or down in the future, the rate the company must pay will also rise or fall. The investments the company is considering are:

- a steam cooker which should return 12% a year
  - a washing machine which should return 18% a year
  - a machine that puts caps on buses which should return 15% a year
6. Decide if the firm should or should not borrow to make the investment indicated. Underline the action you think the firm should take and explain your decision.
- The firm (should/should not) buy the steam cooker because \_\_\_\_\_  
The cost of the borrowed funds will be more than the return from the investment in the steam cooker.  
\_\_\_\_\_

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- The firm (should/should not) buy the washing machine because \_\_\_\_\_

The cost of the borrowed funds is less than the return on the investment in the washing machine.  
\_\_\_\_\_  
\_\_\_\_\_

- The firm (should/should not) buy the busing machine because \_\_\_\_\_

The cost of the borrowed funds is the same as the estimated return. The firm does not make any profit from this investment.  
\_\_\_\_\_  
\_\_\_\_\_

7. Explain why it is important for firms who borrow money to be aware of trends in interest rates.

Answers will vary.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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# LESSON 15

## *Competitive markets*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Pure Competition  
Product Differentiation  
Monopolistic Competition

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Identify and explain the economic characteristics common to firms in pure competition
- Explain why competitive firms are "price takers"
- Give examples and explain the significance of product differentiation
- Define and cite examples of monopolistic competition

### **RATIONALE:**

Most entrepreneurs with small businesses operate in markets that are characterized by a high level of competition. This is the result of the relatively low cost and ease of starting such businesses. Competitive firms have little control over the price they can charge or the quality of the products they are able to sell. In a competitive market, customers are very responsive to price. A competitive firm that charges high prices or offers inferior products will have few customers. These facts tend to result in low profit margins for competitive firms. It is possible for owners to overcome this problem by differentiating their firm's products from those of competitors. If a business can convince customers that its products or services are superior, it will be able to charge higher prices while maintaining the volume of its sales. Anyone studying entrepreneurship should be aware of these facts.

### **MATERIALS:**

- Activity 56 "The lawn and garden doctors"
- Activity 57 "The market for pain relievers"
- Activity 58 "Pizzas"
- Activity 59 Comprehension quiz, lesson 15

### **VOCABULARY:**

Perfect Competition a market in which there are many producers of the same product; customers are indifferent to which product they buy and are only responsive to differences in price

Product Differentiation an attempt by a firm to create consumer preference for its product as the result of a real or imagined difference in the quality of the product it offers for sale

Monopolistic Competition a market in which there are many producers of similar products that are distinguished from each other, usually through advertising

### **PROCEDURES:**

1. Ask students to identify a type of business they believe they might realistically be able to start on their own some day as a single proprietor. Make a list of these businesses on the board. Tell students to examine the list and identify characteristics most of the businesses have in common. (Most will probably require relatively small initial investments and exist within markets that have substan-



tial competition.) In the discussion, emphasize the fact that most new entrepreneurs do business in competitive markets.

- From the list compiled in procedure 1 above, select a business that seems appropriate to this lesson—i.e., a business that operates in a highly competitive market. Ask the students how much they believe the firm could charge for its product at the present time. Then ask them what they believe would happen if the firm increased its price or offered inferior products for sale. (They should recognize that the firm's customers would go to the competition.) Point out the fact that the competitive firms have little control over the price they charge (they are "price takers") or the quality of the product they are able to sell. If the product is of inferior quality, customers will buy from other firms offering the same or similar products.
- Distribute copies of Activity 56 and ask the students to complete it individually or in groups. When they finish their work discuss the answers, emphasizing the idea of product differentiation and how it can help firms in highly competitive markets

improve their profit margins. Define the term *monopolistic competition* and discuss how Joe and Frank attempted to accomplish this objective

- Optional:
  - Distribute copies of Activity 57. Go over the instructions with the students and have them complete the worksheet as an individual or group assignment.
  - Discuss students' findings for Activity 57. Have them compare the prices for the various pain relievers and ways the producers of each attempt to differentiate their product from the products of competitors. In the discussion, have students review the definition of monopolistic competition and give examples of how this applies to firms that produce pain relievers.

### EVALUATION:

Evaluate the lesson by using either Activity 58 or Activity 59. Activity 58 may be used with a "taste test" in which the class orders pizzas from each store and evaluates the products.

Name \_\_\_\_\_

## ACTIVITY 56

### The lawn and garden doctors

When Joe graduated from high school, he couldn't find a job he wanted so he went into business for himself cutting grass. He bought a used truck, a used lawn tractor, and a number of hand tools. Everything he needed cost just over \$5,000. Joe went door to door asking people if they would like him to cut their grass. Joe discovered there were at least eight other lawn services doing business in town. Most people who wanted to have their grass cut already had a different firm doing it.

At first Joe tried to charge high prices because he thought this would allow him to pay his bills and earn a good profit. Many people he called on told him his competitors' prices were much lower. Joe decided to lower his prices and soon he had quite a few customers. In order to cut all the lawns he had agreed to do, Joe had to work quickly and didn't do a good job. Some of his customers told him not to come back because his work wasn't as good as they expected. Finally Joe ended up charging the same price as the other lawn services

and did the same quality work. Joe wasn't happy because he wasn't making much money.

Joe decided he had to do something to improve his profits. He contacted a friend named Frank, who runs a business caring for ornamental plants. When Joe went to a customer's home to cut the grass, Frank came along and examined the owner's plants. When he was ready to leave, Joe gave the owner a free list Frank had made of plant problems along with suggestions for how the plants could be made healthy.

Most of his customers were happy to have the list. Some of them hired Frank to take care of their plants. Joe and Frank became partners and found they could charge higher prices because their lawn service had more to offer than that of their competition. Word of Joe's new service spread and he soon had many new customers. Joe and Frank changed the name of the business to "The Lawn & Garden Doctors" and advertised their special service in local newspapers. They now are the most successful lawn service in town.

1. What happened to Joe's business when he charged more than other firms?

He was forced to lower his prices to the same level as his competition to attract customers.

2. What happened to Joe's business when he charged low-quality work?

He was forced to improve his quality to the same level as his competition to keep customers.

3. Explain how you know the business Joe started was in a competitive market.

I know this because the customers have many choices and are responsive to small changes in price and quality.

4. Why do firms in competitive markets often have low profit margins?

Firms in competition have low profit margins because they cannot increase prices or quality significantly.

5. What did Joe and Frank do that allowed them to charge higher prices and still have more customers?

They provided a service that was different from those offered by competing firms. This differentiation allowed them to charge more.

6. Explain why their new business is an example of monopolistic competition.

A firm in monopolistic competition tries to distinguish its product from similar products offered by other firms. If it does this, it will be able to charge higher prices and earn a greater profit. This is what Joe and Frank did.

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Name \_\_\_\_\_

## ACTIVITY 57

### The market for pain relievers

Most products sold as pain relievers contain one or more of four basic drugs. These are:

- aspirin (acetylsalicylic acid)
- acetaminophen
- ibuprofen
- codeine

Go to a local store and survey the pain relievers offered for sale. Complete a form for each product. When you have finished, identify specific advertisements you have seen or heard for each product.

Consider how the manufacturer is trying to distinguish its product from other similar products.

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

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Name \_\_\_\_\_

## ACTIVITY 58

### Pizzas

In most areas there are many businesses that offer pizza for sale. Identify three specific pizza restaurants in your neighborhood. Find the following information for each store and answer the questions below.

When you visit the stores, try to look at the quality of their pizza.

Store No. 1:	Store No. 2:	Store No. 3:
Price of 12-inch pepperoni pizza: \$ _____	Price of 12-inch pepperoni pizza: \$ _____	Price of 12-inch pepperoni pizza: \$ _____
Price of each additional topping: \$ _____	Price of each additional topping: \$ _____	Price of each additional topping: \$ _____
This store tries to differentiate its pizza from competing stores by: _____ _____	This store tries to differentiate its pizza from competing stores by: _____ _____	This store tries to differentiate its pizza from competing stores by: _____ _____

- How much difference is there in the prices the stores charge for their pizza?  
\_\_\_\_\_
- Describe any differences in the quality of the pizzas.  
\_\_\_\_\_  
\_\_\_\_\_
- Describe the degree of success you believe the firms have had in distinguishing their products from each other.  
\_\_\_\_\_  
\_\_\_\_\_
- Describe what you would do to try to improve your profit margin if you owned one of these firms.  
\_\_\_\_\_  
\_\_\_\_\_

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Name \_\_\_\_\_

## ACTIVITY 59

### Comprehension quiz, Lesson 15

#### PART I

Read the statements below.

Place an "T" in front of each of the statements you think is true and ignore the others.

Place an "F" in front of each of the statements you think is false; then write the statement correctly in the space provided.

- Products offered for sale by firms that sell in the same competitive markets are often quite different.  
Products offered for sale in competitive markets are almost the same.
- Competitive firms are often called "price takers" because their customers are forced to "take" whatever price they charge.  
Competitive firms are called "price takers" because they must charge the same price as their competitors.
- Firms that sell in the same competitive market all charge about the same price.  
\_\_\_\_\_
- Competitive firms often try to achieve product differentiation.  
\_\_\_\_\_
- Firms in monopolistic competition are more likely to earn good profits than competitive firms because their products are more important.  
Firms in monopolistic competition are likely to earn a larger profit because they have distinguished their product from another's products.  
\_\_\_\_\_

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#### PART II

- Explain two reasons why most single proprietorships do business in competitive markets.
  - They require limited money to get started because most firms in highly competitive markets are small.  
\_\_\_\_\_
  - They are easy to start.  
\_\_\_\_\_
- Describe one specific example you know of in which a firm has tried to distinguish its products from others that are really much the same.  
Answers will vary. One example, however, would be cosmetic products.  
\_\_\_\_\_  
\_\_\_\_\_

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# LESSON 16

## *The demand for labor*

### **TIME REQUIRED:**

Two Class Periods

### **CONCEPTS:**

Demand for Factors of Production/Labor

Derived Demand

Diminishing Marginal Productivity

### **INSTRUCTIONAL OBJECTIVES:**

Students will:

- Explain why a firm's demand for any factor of production depends on its ability to sell the product produced
- Based on their analysis of events observed in a simulated entrepreneurial venture, formulate a statement of the principle of diminishing marginal productivity
- Evaluate the sales and cost data to determine the optimal hiring level for a given firm

### **RATIONALE:**

In order to earn a profit, entrepreneurs purchase a combination of the factors of production, which are used to produce goods and services that are supplied to the market. The greatest cost of production for many firms is the cost of labor. Many businesses fail because owners do not understand or control labor costs. It is important for entrepreneurs to consider the relationship among profitability, the cost of labor, and the value of workers.

### **MATERIALS:**

- Activity 60 "Circular flow model"
- Activity 61 "The handprint business"
- Activity 62 "Sharon's firewood"
- Activity 63 Comprehension quiz, lesson 16

### **PROCEDURES:**

1. Using a transparency made from Activity 60, review the circular flow model. Emphasize the relationship between the sales of products in the product market and a firm's ability to pay for factors (including labor) in the factor market.
2. Identify several jobs that exist in the area of your school that your students are aware of and that require substantially different training, risk, or experience (e.g., auto mechanic, construction worker, grocery clerk, bank loan officer). Ask your students to estimate how much each of these jobs is worth in terms of an hourly wage. Discuss the reasons for your students' estimates in class.
3. Ask students to pretend that they are the employers of the workers identified in procedure 2 above. Ask them to list the factors they would consider in setting wage rates for their employees. Students are likely to list factors that relate to the quality of the worker or the local economic conditions (education, experience, the cost of living, or what other employers are paying). They are not as likely to consider the value of the worker's labor to the employer.
4. Distribute Activity 61 and work through it with your class. Draw the boxes on the board and help the students with the activity. As more students try to draw in the same box, they will start to run into each other and the number of additional prints will decline as extra students are added. Explain how this demonstrates the principle of diminishing marginal productivity. In many cases, the constraint on the value of additional workers is a fixed capital base (only so many tools workers can use). In this case, the constraint is the space. The last worker is likely to cost more than he or she is worth

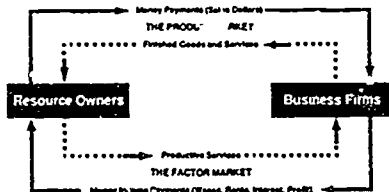
and therefore should not be hired. Emphasize the fact that a firm cannot maximize its profits if it pays workers more than the value they contribute to production.

### EVALUATION:

Evaluate the lesson by using Activity 62 or Activity 63.

## ACTIVITY 60

### *Circular flow model*



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Name \_\_\_\_\_

## ACTIVITY 61

### *The handprint business*

Your teacher has drawn four 3-foot-square boxes on the board. Some of your classmates are going into the "handprint" business.

Your teacher will pay \$5.50 (pretend) for each traced handprint that is of reasonable quality and does not overlap any other handprint.

In the first box, one student will have one minute to trace as many of his or her handprints as possible. The student is paid a wage of \$5 (pretend). When the minute is up, add the number of prints made and see how much money was taken in, compared to the cost of the worker, and how much was earned as profit.

Repeat the process in each of the next three boxes, adding one more student/worker for each box. Remember each added worker must be paid the \$5 wage. Complete the table below to help you answer the following questions. Answers will vary. Example of a completed table is provided below.

What there was - this many workers	the number of prints made was	they were worth	the worker(s) were paid	the amount of money earned was
1	16	\$ 8.00	\$ 5.00	\$ 3.00
2	28	\$14.00	\$10.00	\$ 4.00
3	32	\$16.00	\$15.00	\$ 1.00
4	14	\$17.00	\$20.00	-\$ 3.00

- What happened to the number of additional prints produced as extra workers were hired?  
As more students try to draw prints, the extra students produce fewer and fewer additional prints.
- What happened to the value of added workers?  
The value of added workers went down because they produced fewer additional prints.
- Why did this happen?  
This happened because the additional workers had little space to work in. They kept getting in one another's way.

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Name \_\_\_\_\_

## ACTIVITY 62

### Sharon's firewood

Sharon is an elderly woman who owns 40 acres of woodland in rural Iowa. Sharon is too old to do much work herself. Two years ago a tornado blew down most of the trees on her land. Sharon was upset but thought there was little she could do about it. A few weeks ago, one of Sharon's friends suggested she hire some local high school students to cut the trees up and sell them for firewood. The man said she could probably get \$45 for each cord of wood and most of the local farmers would be willing to pick it up from her home.

Sharon decided to try the idea. She hired her neighbor's 17-year-old son Tim and agreed to pay him \$5 an hour to cut wood for eight hours on Saturday. He used a 6-foot long cross-cut saw she owned and a hand axe. Working all day, he managed to cut one cord of wood, which Sharon sold for \$45. Sharon paid Tim \$40, which left her \$5 in profit. She decided to try it again. This time Sharon asked Tim to bring one of his friends to help. To

her surprise, Tim and his friend were able to cut four cords of wood working together. They explained that the saw was really too big for one person, but the two of them together could just "hip" right through those logs. Sharon was thrilled. She paid the boys a total of \$80 and sold the wood for \$180, earning \$100. Sharon told the boys to come back the next time and bring another friend.

The following Saturday, the three boys cut six cords of wood. Sharon increased her employment one more time to four boys but discovered they cut six cords, just the same as the three boys had cut the week before. She became angry at them and accused them of being lazy. They denied it and said there really wasn't much for the fourth boy to do while two boys used the saw and one the axe. She decided to keep on with her business but to employ only three boys.

Consider the information above and answer the following questions.

1. Complete the following table.

When Sharon had this many workers	they cut this many cords	she paid them this much	she sold the wood for	and earned
1	1	\$ 40	\$ 45	\$ 5.00
2	4	\$ 80	\$180	\$100.00
3	6	\$120	\$270	\$150.00
4	6	\$160	\$270	\$110.00

2. How does this situation demonstrate the principle of diminishing marginal productivity?

As Sharon added more boys, their additional production first increased because it took two of them to operate the large saw. After that, the value of added boys went down because they had limited tools (capital) to use.

(Continued)

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3. Why couldn't four boys cut any more wood than the three?

The fourth boy had no tools to use.

4. What might Sharon have done to increase the value of the fourth boy?

She could have chased another saw.

5. If Sharon found she could sell only four cords of wood a week, how many boys should she hire? <sup>2</sup>

6. How does this example demonstrate the fact that the demand for labor is a derived demand? The demand for the boys is derived from Sharon's ability to sell wood in the product market.

7. Identify an example of \_\_\_\_\_ of the four factors of production in this story.

Land: the fallen trees

Labor: the boys' efforts

Capital: the saw and the axe

Entrepreneurship: Sharon's decision to have the wood cut and to sell it.

Name \_\_\_\_\_

## ACTIVITY 63

### Comprehension quiz, lesson 16

PART I

Answer the following by placing the letter of the correct definition in the blank in front of each term.

Term	Definition
C 1. derived demand	A. the price a firm charges for its products times the number sold
E 2. diminishing marginal productivity	B. things used to produce other goods and services
B 3. factors of production	C. a willingness to purchase a factor of production that depends on a firm's ability to sell its product
A 4. total revenue	D. the difference between the amount a firm takes in when it sells its product and the amount it spends to make the product
F 5. total cost	E. as more workers are hired, a point is reached where each additional worker results in ever smaller amounts of additional production
D 6. profit margin	F. the amount spent by a firm to be able to offer goods for sale

PART II

Read the story below and answer the following questions.

The Apex Golf Ball Co. has had a good year. It has been able to sell as many balls for \$1 each as it could manufacture.

To make golf balls, the firm must pay for labor plus \$ .40 per ball for other expenses.

At the start of the year, the company employed 10 workers who were paid \$60 a day including all firm's benefits. During the year more workers were hired, one at a time, until there were 15 workers. The company didn't buy any more machines to make balls.

The owners gathered data about what happened and organized it in the table below. They tried to analyze the information but aren't sure what it means. They have asked you to study their data and answer the questions that follow.

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Apex Golf Balls Financial Data

Workers	Balls per day	Sales per day	Other costs	Total wages	Total cost	Total profit
10	4,000	\$ 4,000	\$ 1,600	\$ 600	\$ 2,200	\$ 1,800
11	4,250	4,250	1,740	660	2,400	1,950
12	4,500	4,500	1,860	720	2,580	2,070
13	4,800	4,800	1,920	780	2,700	2,100
14	4,900	4,900	1,960	840	2,800	2,100
15	4,900	4,900	1,980	900	2,880	2,070

7. Fill in the total profit column by subtracting the amount in each total cost column from the corresponding amount in the sales per day column. The first one has been done as an example.

OWNER QUESTIONS

8. Why does the number of additional products produced keep going down as we hire more workers? The firm bought no new machines so added workers had less and less to do, consequently, they produced fewer and fewer additional products.

9. How many workers should have been hired?

Either 13 or 14 (The value added by the 14th worker is equal to the cost of hiring that worker. When we hired the 14th worker, we added \$60 per day to our wage cost, and other costs rose by \$40 at the same time. But our sales rose by \$100, which was enough to cover the additional production costs. The 15th worker would add another \$50 to our total wage cost, but sales would rise by only \$50.)

10. What is the most profit that could be earned in a day? \$2,100

11. We expect the cost of our raw materials to go up to \$ .50 per ball. What should we do to protect our profit margin?

Answers will vary. Students could suggest an increase in price or the purchase of new, more efficient machines.

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# LESSON 17

## *Entrepreneurs and government intervention*

### TIME REQUIRED:

Two Class Periods

### CONCEPTS:

Role of Government  
Government Intervention  
Cost of Government Regulation  
Externalities  
Laissez-faire  
Minimum Wage

### INSTRUCTIONAL OBJECTIVES:

Students will:

- Give examples of how government intervention can add to or subtract from the profits of a small business
- Identify several examples of government intervention that are intended to protect the public's interests but may add to the cost of a small business
- State reasons for government intervention
- Given a description of the positive and negative effects of an entrepreneurial enterprise on the surrounding community, evaluate the options for government intervention, decide what action the government should take, and justify its decision

### RATIONALE:

All firms exist within the context of society and its governmental system. Business activity certainly can contribute to the goals of society. On the other hand, the interests of society sometimes can conflict with those of individual entrepreneurs and businesses. Government

is and can be used to encourage certain business activities and to discourage others. Accordingly, the governmentally imposed or provided incentives or disincentives affect the small business. The individuals running businesses must recognize that they are not islands unto themselves. One player that affects the small business is the government.

### MATERIALS:

- Activity 64 "Effects of government on the entrepreneurial enterprise"
- Activity 65 "Batesville"
- Activity 66 Comprehension quiz, lesson 17

### VOCABULARY:

Externalities	costs or benefits associated with the production or consumption of a product that "spill over" to third parties (people other than the direct producers and consumers of the product)
Negative Externalities	spillover costs associated with the production or consumption of a product; negative side effects that result when the production or consumption of a good or service affects the welfare of people who are not directly involved in the market exchange. (Pollution is an example of a negative externality.)
Positive Externalities	spillover benefits associated with the production or consumption of



a product; the positive side effects that result when the production or consumption of a good or service affects the welfare of people who are not directly involved in the market exchange. (Home improvement work that improves the appearance of the neighborhood is an example of a positive externality.)

#### Laissez-faire

literally translated as "let them do," "let (people) do (as they please)," or "let alone." Laissez-faire is rooted in a belief that the market mechanism in a free enterprise competitive economy coordinates production and distributes income in a self-adjusting manner that tends toward full employment without government intervention

#### Minimum Wage

a term that refers to various legal restrictions on the lowest wage rate payable by employers to workers

### PROCEDURES:

1. Announce this activity several days before you intend to teach it. Assign each student to ask one person who is in business to describe one specific governmental act that affects the business they run and to explain their opinion of that act. It can be some type of regulation by which they must abide. Or it could be some type of program funded by the government that helped them. Students should briefly write down what they learn and bring it to class.
2. Have students list and describe the types of governmental actions mentioned by the owners of small businesses. Regulations will probably be more frequently mentioned than the direct benefits by government. Many entrepreneurs believe there is entirely too much governmental regulation. They think we should have much more laissez-faire, which means less governmental intervention.
3. Distribute copies of Activity 64. Have students complete the worksheet individually, in groups,

or together as a class. The situations given are governmental actions that encourage and discourage activities by the owner of a small business. It also asks students to list the effects of each action on the small business owner. It is important to bring out why government wants small businesses to flourish. Also, it should be emphasized that efforts by entrepreneurs to earn profits need to be limited to activities consistent with the general welfare of society.

4. *Optional.* Distribute copies of Activity 65. In this situation, students can explore the pros and cons of economic growth for a small community. It provides an analysis of the incentives and disincentives that could be implemented by a local government to encourage or discourage a firm to establish operations in the community.

This case provides a good opportunity to explore the economic concept of negative externality and the role of government in dealing with negative externalities. A negative externality is a cost of producing a product that is borne by those who are neither the producers nor the consumers of the product. In this situation, the air will be more polluted by the presence of the fertilizer company. This pollution will probably cause increased costs for many in the town who do not work at that plant. In other words, they suffer costs because of the product even though they are not producers or consumers of the product. Government policy can be used to have more of the total cost of the production process borne by the producers and consumers. In this situation, the local government may require a certain level of air purity emanating from the stacks of the firm. In order to meet that requirement, the firm will probably need to install some new equipment to clear the smoke, embers, ash, and other pollutants before they are emitted. New equipment means more costs. These increased costs are ultimately paid by the consumers of the output (fertilizer) through higher prices or by the producer who has lower profits because of increased costs. Government, through regulations, forces the consumers and producers to pay more of the full costs of producing the item.

### EVALUATION:

Have the students complete Activity 66 individually, or have them work in pairs or small groups to answer the questions.



Name \_\_\_\_\_

## ACTIVITY 64

### Effects of government on the entrepreneurial enterprise

#### INSTRUCTIONS

Imagine that the following statements are headlines of articles. Each of them relates to governmental intervention in the marketplace, especially for the small business owner. For each headline, indicate the following:

- Why the government has intervened
- What effect the intervention has on the owners of small businesses who are affected by the action

#### 1. Restaurants closed by public health inspector because of cleanliness violations

Reasoning for intervention \_\_\_\_\_ Protects consumers from food poisoning.

Effects on small businesses \_\_\_\_\_

Owners of restaurants will suffer losses because of closure. Additional costs will be incurred by owners for getting their restaurants cleaned up.

#### 2. Government program provides free advice to entrepreneurs

Reasoning for intervention \_\_\_\_\_

Government wants small businesses to start and prosper; this would result in the creation of new jobs, the generation of income, and provide a new source of tax revenue.

Effects on small businesses \_\_\_\_\_

Hopefully, the advice will encourage people to initiate new and successful ventures or will provide already established firms with ideas that can make them more effective and efficient. If this is a free service, the only cost to the small business owner is his or her time.

(Continued)

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#### 3. Minimum wage increased—affects many area small businesses

Reasoning for intervention \_\_\_\_\_

Government does not want workers to be taken advantage of, i.e., paid a wage on which they cannot live.

Effects on small businesses \_\_\_\_\_

This can increase the costs for the small business because of having to pay increased labor costs. This may cut into profit margins if costs are not passed on to consumers through higher prices. Some jobs may be eliminated if the increased wages are deemed too high for the labor services performed.

#### 4. Inexpensive courses in small business management funded by the government

Reasoning for intervention \_\_\_\_\_

Improve the abilities and performance of managers, owners and employees so that firms can be more economically efficient and profitable.

Effects on small businesses \_\_\_\_\_

If courses prove worthwhile, the profitability and economic health of small businesses in the geographical area could improve, thereby maintaining jobs and encouraging the economic health of related businesses.

#### 5. Area firms install new equipment to make work areas safer

Reasoning for intervention \_\_\_\_\_

Avoid accidents in the workplace, assist workers in having a safer place to work.

Effects on small businesses \_\_\_\_\_

Increased cost for making goods or services because of having to install new equipment.

#### 6. Area firm fined by government for using misleading advertising

Reasoning for intervention \_\_\_\_\_

To promote fair business practices so that the consumer is not deceived and competitors can be assured of a level playing field in the marketplace.

Effects on small businesses \_\_\_\_\_

The business that was fined has additional costs. The firm may also lose business because of adverse publicity. Other small businesses, who are competitors, would benefit because of a fairer, more equitable market.

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#### 7. Based on the previous instances of government intervention, complete the following statement.

Government affects small businesses in a number of ways. Some activities, such as \_\_\_\_\_

free college courses and free advice \_\_\_\_\_ encourage small business development. If these activities

are successful, the direct costs of these activities to the firm are less than the increased profitability that results.

In other instances, government contributes to the cost of doing business. Examples include \_\_\_\_\_

improving work areas for employees, meeting regulations and paying higher wages because of minimum wages.

Generally, these forms of intervention are meant to protect or aid a particular group who works for or buys goods and services from small businesses.

#### 8. Many entrepreneurs believe there are too many regulations aimed at small business. They believe we should have more of a laissez-faire economy. Why do you think this belief is held by many entrepreneurs?

Generally, the regulations are a nuisance for the entrepreneur to implement. Also regulations generally mean a higher cost for producing goods and services. Higher costs many times mean higher prices for the output of the firm. This, in turn, can make a small business less competitive in a market, especially if competitors are located in states or countries where there is less governmental intervention and production costs are less.

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Name \_\_\_\_\_

## ACTIVITY 65

### Batesville

#### INSTRUCTIONS

Read the story and answer the questions below.

Batesville is a rural town in the Midwest with a high rate of unemployment. The only industry in town, a chair factory, closed down four years ago. Since then many of the people who live in Batesville have moved away. Nearly everyone feels poor and depressed.

Last week some industrialists from Chicago came to Batesville to announce that they wanted to manufacture fertilizer in the building the chair business once owned. They said rebuilding the plant would require an investment of over \$30,000,000 and employ 120 people. When the factory finally goes into production, it would create 45 full-time jobs and put about \$1,300,000 into the local economy every year.

At first almost everyone was happy with the pro-

posal. Some even suggested to the town leaders that reduced property taxes should be given to the firm for the first 16 years to make sure that it moves to Batesville. Others were a bit more skeptical. They were concerned about the effect that fertilizer production would have on the quality of their air and water. Residents with homes located close to the former chair factory were concerned about their property values if the fertilizer firm moved in.

A town meeting was called to discuss the matter. The various points were presented.

Please clarify various viewpoints by answering the following questions.

#### 1. One person indicated there are tremendous benefits to almost everyone in Batesville. Therefore, the town should provide this reduction of property taxes in order to encourage the firm to locate their operation in Batesville.

##### a. In what ways would the entire town benefit if the firm moved into Batesville?

More jobs, both initially and in the long run, mean more income in the community. The increased income can create more prosperity for downtown stores. Greater income can also mean more tax revenue which can go toward improving schools, parks, roads, and other public services.

##### b. Why is the property tax reduction a way to get almost everyone in the community contributing to the incentive for the firm?

Almost everyone directly or indirectly pays the property tax. The property owner directly pays it a tax. The renters pay the tax through their rental payments. When a tax reduction is given, almost everyone suffers because fewer public goods and services can be produced due to less tax revenue. If the amount of the reduction is to be repaid for the public coffers, the taxes for others must be increased.

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2. A preacher also mentions that some of the citizens brought up concerns that focus on additional costs to the residents because of the presence of the new fertilizer plant.

a. What additional costs are generated to all residents of Bateville if the plant creates considerable air and water pollution?

More medical bills because of sickness, possibly shorter life spans for residents. Horses and cars need to be painted more frequently because of air pollutants.

b. What additional costs are generated to the residents of homes close to the fertilizer factory if the fertilizer business moves into Bateville?

The property value of those houses will probably go down, especially if the plant emits considerable air pollution and has a considerable amount of traffic in that area.

c. How can government alleviate those concerns?

Water and air pollution: set standards for the maximum amount of pollution that will be allowed. The firm would have to install equipment to cut down on the amount of discharge. This equipment costs money. If the equipment costs are deemed too high, the firm may decide to relocate elsewhere. Land improvement: the firm may be required to put up fencing and/or make some landscaping improvements in the area where the plant is located so that property values do not drop.

(Continued)

3. As seen here, government intervention can lead to activities that encourage businesses and discourage businesses. Explain what this means in relationship to this situation.

Tax reduction means a savings in cost that, in turn, means more possible profits for the entrepreneur. Equipment: after air pollution and measures to please nearby property owners increase costs, which could lower profits unless the additional costs can be passed on to the consumer. If such costs are considered too high by the entrepreneur, he or she might look elsewhere for a site.

4. From what you have read, do you think the plant should be converted to produce fertilizer in Bateville? Explain your answer.

Answers will vary.

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Name \_\_\_\_\_

## ACTIVITY 66

### Comprehension quiz, Lesson 17

#### ANSWER THE QUESTIONS BELOW:

1. Name three ways in which government can decrease the costs of a small business and provide reasons why government would provide these benefits. Answers will vary. Three ways include

- giving real estate tax breaks for establishing one a business in a certain area in the community. This, in turn, decreases the amount of taxes that would ordinarily be paid by the small business.
- Providing guarantees for loans, such as through the SBA, for small businesses. Generally, small business people securing one of these loans pay less interest than they would have to pay without the guarantee. This, in turn, means the businesses save on interest charges.
- Providing courses at little or no charge to the small business person either at a public school or through a public agency. The hope is to improve the effectiveness of the small business person so as to improve sales and/or to raise costs.

2. Name three instances in which government can increase the costs of a small business and provide reasons why government would put these actions into effect. Answers will vary. Three instances and the reasons include

- Meeting new governmental safety requirements in the working areas of a small business may mean some structural changes in the working environment. This will mean more costs in the short run for the small business person. The government implements such action in order to protect the worker from accidents.
- Require certain standards for goods and services offered by the business. For example, restaurants must maintain a certain degree of sanitation or they will be closed down. Regulations are primarily to protect the consumer. Such regulations add to costs because time and effort are expended to keep the kitchen and serving areas at the required cleanliness level.
- Raise the minimum wage for workers. Many small businesses pay the minimum wage. It is debatable if raising the minimum wage is actually that beneficial to workers but the argument given for raising it is to allow workers a "living wage." Such action can indeed raise the costs for small businesses.

3. Sometimes the interests of the small business owner conflict with the interests of others in the society, such as the consumer, the wage earner, or the general citizen. Provide three examples showing how this principle is true.

- Wage earner wants a safer worker environment; small business person wants to keep labor or her costs down as low as possible in order to maximize profits.
- Consumers want a lot of information given for them on the products that are to be sold, paying all of that information on the package costs time and money, leading to more costs which may mean fewer sales for the small business person.
- Firm that creates a considerable traffic flow may very much like a particular location in a small town, small town may not want all that traffic. Many moved away to the small town to get away from traffic congestion.

4. New business development in a community has many advantages, such as more income in the community, more tax revenue, and more jobs. There can also be a negative side for new business development. Name at least three disadvantages that may be present in new business development.

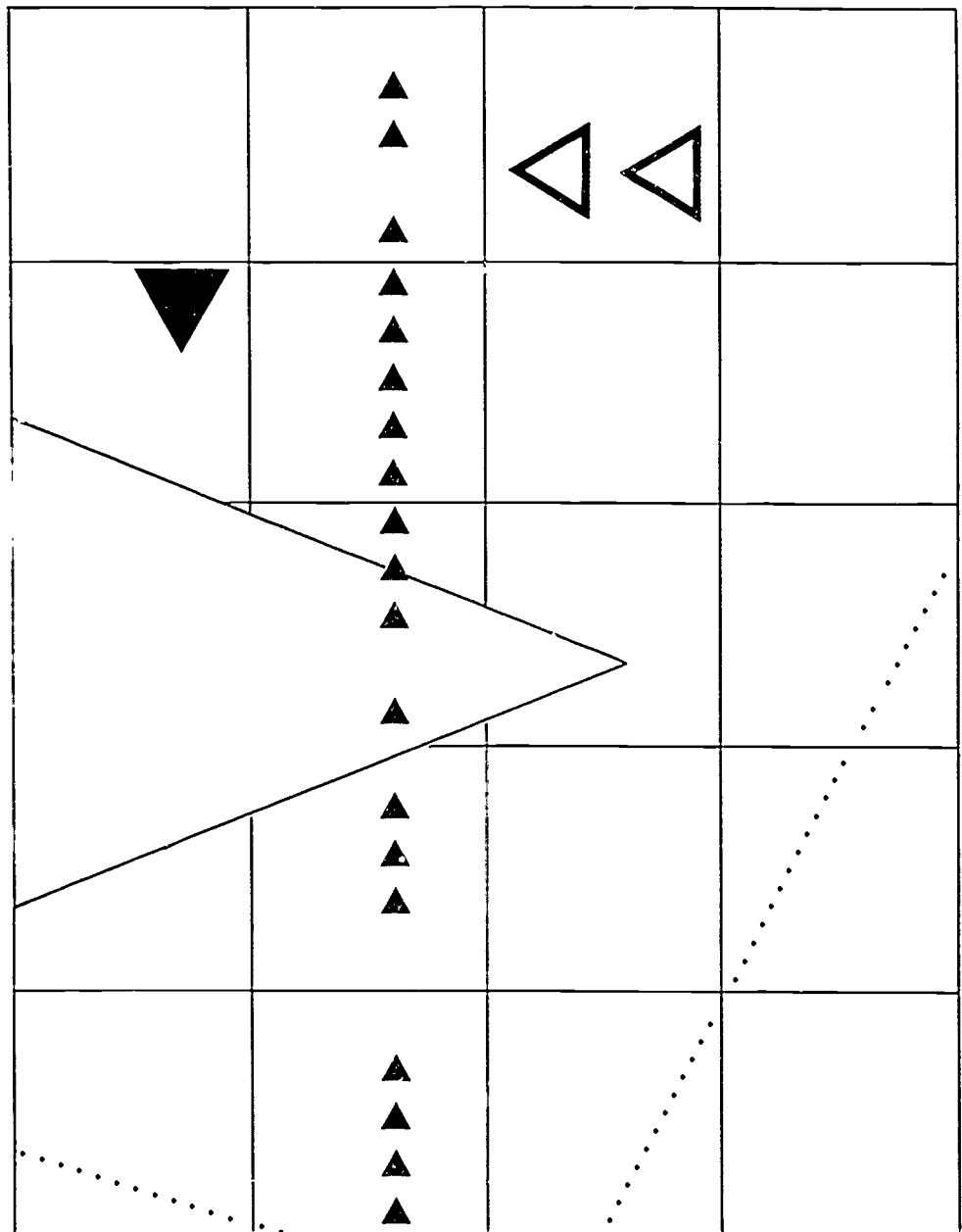
Disadvantages include more congestion, more crime, more air pollution, more wear and tear on highways and other public services.

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# PART 3

## ENTERPRISING TEACHING



# THE ENTERPRISING TEACHER

## INTRODUCTION

To teach effectively the sample lessons described in this *Master Curriculum Guide*, the teacher must employ some of the same attributes that he or she would attempt to instill in the students. In other words, the teacher is to practice enterprising teaching. To be an enterprising teacher, one teaches in a manner that demonstrates the key entrepreneurial skills and attributes so that a teacher is in a position to lead by example and, in varying degrees, to serve as an entrepreneurial role model and mentor for students.

In this section, we will provide a rationale for enterprising teaching, describe the enterprising teacher by outlining the seven roles that the teacher performs, and conclude with some teaching suggestions for use in the classroom.

## RATIONALE FOR ENTERPRISING TEACHING

Entrepreneurs are not born from information. One cannot just place some quantity of print material in the hands of an individual and expect that to be a motivator for entrepreneurial initiative. Similarly, one cannot simply communicate information about entrepreneurship and expect that to impact the spirit of entrepreneurship, thus prompting the learner to pursue an entrepreneurial career path. Entrepreneurship is a dynamic process and is born of action and initiative as well as knowledge and awareness.

Therefore, if a teacher wants merely to provide instruction about entrepreneurship, then he or she can provide information to students utilizing traditional methods and resources.

However, the goal of the program is to encourage enterprising initiative and endeavors, so it will be advantageous, if not actually necessary, to teach in an enterprising way. Enterprising initiative results from the accumulation of knowledge, attitudes, and skills that

both prompt and prepare one to create, launch, and operate new ventures. Unless students are screened and selected for such a program based on character and skill profiles, changes in attitude and behavior will be as important as increases in knowledge.

Key areas will have to be addressed in terms of students' requisite attributes and skills for entrepreneurship, such as improved self-confidence, perseverance, commitment, goal orientation, desire for accomplishment, creativity, willingness to take initiative, willingness to accept risk, and so on. Thus the classroom will have to become an environment in which these attributes are emphasized, encouraged, and demonstrated, and the leadership provided by the teacher will be all-important.

Students will need to be motivated, inspired, encouraged, assisted, and directed. Their willingness to assess and explore their own entrepreneurial potential will be more a product of their learning environment than their accumulated knowledge.

Other people may assist the teacher in achieving these outcomes. Guests may be brought into the class to vary the presentation to students. But the teacher will be the primary resident role model and be the major influencing resource. If the teacher can exemplify the characteristics and skills of entrepreneurship on a regular basis, then the propensity for students to behave in an enterprising manner should be significantly enhanced.

This is not to say that a teacher who teaches entrepreneurship in a nonentrepreneurial way dooms his or her students to a nonentrepreneurial future. Other mitigating circumstances may well intervene. But the likelihood of success—developing entrepreneurial characteristics, attitudes, and skills in students and promoting entrepreneurial initiative—will be much greater if the teacher represents a personification of entrepreneurship in the

approach taken to tasks, problems, and opportunities.

The adage "He who can, does; he who cannot, teaches" (George Bernard Shaw, *Man and Superman*) cannot be held over the heads of educators. Teachers, as well as anyone, can be enterprising in their approach to their tasks, problems, and lives. Teaching in an enterprising way is not an unfair expectation of one who is teaching entrepreneurship. Leading by example is inspirational and motivational. Teaching by example will be a requisite for effective teachers in the entrepreneurship education classroom.

### THE ENTERPRISING TEACHER

The teacher plays the primary role in the classroom. The teacher, among other things:

- provides instruction
- creates the learning environment
- motivates
- evaluates
- serves as a role model and possible mentor

Entrepreneurship education, particularly at the pre-college level, is formative in nature. It aims to promote the development of characteristics, attitudes, and skills that are relevant to entrepreneurial initiative. Therefore, even though many educators may not have business experience, most are well skilled in procedures to build and affect attitudes in the classroom.

Entrepreneurs are a product of many things, the least of which is probably genetics. Entrepreneurs are a product of their environment, home, school, social, and work. The more encouragement these environments provide to enterprising behavior, the greater the likelihood that a young person will develop an interest in, and propensity for, entrepreneurship.

It is important to note that entrepreneurship education programs have goals other than creating entrepreneurs. Entrepreneurship education can develop attitudes and skills, and an overall approach to life and endeavors that can be important and useful to students regardless of their chosen career.

Entrepreneurship is more an approach to doing things than it is the specific undertaking of a particular kind of endeavor. In that regard, the skills and characteristics of entrepreneurship can be applied as effectively to teaching as they can to any other kind of activity. If such application is made effectively by the teacher, this can not only help in the development of enterprising skills and attributes in students, but it can also provide a clear demonstration of how entrepreneurship can be applied to nonbusiness ventures.

The teacher provides the leadership in the entrepreneurship education classroom and is one of the primary architects of the education environment. To provide an effective program in entrepreneurship will involve much more than teaching *about* entrepreneurship. To change and develop attitudes require more than a knowledge-based course of instruction. The course content is just one part of the program. The educator will need to establish a broad focus for the planning of an entrepreneurship education program to make it effective.

Let us examine the various dimensions that are involved in functioning as an enterprising educator in an entrepreneurship education classroom. Below we discuss the seven roles for the teacher and provide brief examples of how that role can be performed in an entrepreneurial manner.

1. *The teacher as innovator and achiever.* Entrepreneurs are agents of change. They find new and innovative ways to address needs and wants and to overcome problems. Therefore, entrepreneurship education should help to promote and encourage innovation and to take an innovative approach to tasks and problem solving.

The teacher must also be an innovator. New techniques should be tried and used. Students should recognize the efforts of the teacher to be innovative, to present material in new ways, to try new things, to take risks, to take a fresh approach, and to bring the subject to life in the classroom. The enterprising teacher should face the challenge of teaching as an entrepreneur and be prepared to identify opportunities for new approaches, strategies, and resources. If the teacher is successful in demonstrating to students how he or she has set goals in the course, has developed a plan, and so forth, then the teacher should also share accomplishments with students. Students should see the positive feeling associated with achievement. As much as possible, they should be allowed to share in the sense of accomplishment realized by their classmates, the teacher, and themselves.

### EXAMPLE

Bring to class the colored comics section of the weekend newspaper in sufficient quantity to provide one to each student in the class. Ask students to look at this section of the newspaper and think of opportunities for other uses that come to mind. Ideas may come from the comic strips themselves or from ways of using the colored comics section of the paper once they have been read. Let students think about it individually and then brainstorm as a group. Be prepared with your own ideas, such as using the colored comics section of the paper as wallpaper, as "funny" fire starter, as confetti, etc.



2. *The teacher as role model/mentor.* There is considerable evidence demonstrating the influence of a role model and mentor in affecting entrepreneurial behavior. Entrepreneurship is contagious. Entrepreneurial people encourage and motivate those around them.

Therefore, the enterprising educator should aim to be a role model and, to the extent possible, a mentor to students. Teachers should try to develop their own entrepreneurial characteristics and skills as much as possible. They should embody the spirit and attitudes of an entrepreneur in the classroom to inspire and motivate students.

A role model is one who is observed more than consulted. A mentor relationship implies more continuous contact, dialogue, and assistance. Depending on the number of students, the structure of the program, and so forth, teachers may be more likely to serve as effective role models than mentors. However, to whatever extent possible, teachers should attempt to establish mentor relationships with students.

#### EXAMPLE

Identify a change that is taking place in the school or community. Discuss this change with students and analyze how the change is generating opportunities. In partnership with students, identify one or two specific opportunities that you, as the teacher, might be able to address with a new idea. On your own, work with these opportunities and identify a variety of specific ideas to share with the class. Identify one idea that seems to have potential. Discuss with students how you might move the idea forward. If possible, act on this and see how far you can carry it. Discuss with students the resistance or barriers you encounter along the way.

3. *The teacher as a change agent.* Entrepreneurs challenge the status quo. They look at the way things are and look for ways to bring about improvements. A teacher can do this too. An entrepreneurship educator can look for ways to bring about change in the classroom, in the school, and in the community. The teacher can lead by example by becoming an active agent for change and progress. Some initiatives may involve students from the program in school- and community-based initiatives. In taking on the role as a catalyst for change, not only will the teacher sharpen entrepreneurial skills, he or she will more clearly demonstrate the role and nature of entrepreneurship to students.

#### EXAMPLE

(i) Identify a problem or opportunity that exists in the school for teachers or students. Identify and define the opportunity clearly. Establish a goal for what you would like to realize and set

about to bring about the change.

(ii) Examine the traditional classroom setup. In partnership with students, attempt to establish an innovative classroom design more conducive to the *spirit* of entrepreneurship.

4. *The teacher as motivator.* Entrepreneurs are goal oriented. They set goals and, if successful, achieve a sense of personal accomplishment. That is the primary motivational force for entrepreneurship—the quest for personal accomplishment and achievement.

Many students, however, are not goal oriented. Many have relatively low self-esteem and self-confidence. Many have relatively low expectations about their own abilities. The teacher can challenge such perceptions. The teacher can abandon his or her own previous perceptions of a student's potential and encourage the student to aspire to more.

Educators can further assist in this area by making their own goals clear to students. Let students see that there are goals set, ambitions in place, and hopes and dreams that help to pull one forward. The educator is in an opportune position to motivate students, to encourage their self-confidence, to elevate their self-esteem, to encourage their consideration of new options, to set goals, and to establish hopes and dreams that they can aim to realize.

#### EXAMPLE

Ask each student to identify three entrepreneurial opportunities. Have each student write out his or her opportunities and submit them in writing. Meet briefly with each student and discuss the student's suggestions. Acknowledge the insightful suggestions and encourage the student to consider investigating one of them further. If suggestions are not effective, discuss this with the student and challenge him or her to come up with other possible opportunities until a suitable one is found. Reinforce each student's efforts by building a list of identified opportunities on a wall board with the student's name beside his or her opportunity. Provide writing space beside each opportunity for others to write their comments and thoughts. After two weeks, and after the student has had a chance to reflect on the opportunity and review comments, have each student revise and refine his or her opportunity.

Gather the refined opportunities together and, using a computer and printer, produce a class newsletter paper called "Opportunities for Entrepreneurship" in which each student presents a write-up of his or her perceived opportu-

nity. Circulate this among the school and the community.

Specific constructive feedback from the teacher, and seeing one's name *in print*, can contribute a motivating, confidence-building influence.

5. *The teacher as evaluator.* Entrepreneurs crave feedback. They are motivated by a quest for personal accomplishment so they are always seeking evidence of progress. Feedback from those who are observing and judging is vital. But such feedback must be constructive, insightful and, as much as possible, unscheduled and not part of a routine.

But even more than providing evaluation and feedback, the enterprising educator will need to employ innovative approaches to evaluation. Utilizing tests and exams to assess knowledge alone is not acceptable. Left-brain, linear thinking and learning are important and will need to be assessed but right-brain development is also important.

Creativity, intuition, and so on, will need to be assessed and acknowledged. Changes in attitudes, characteristics, and skills will have to be weighted at least as heavily as cognitive development. Therefore, new assessment instruments will need to be used and developed. Techniques such as self- and peer evaluation will have to be utilized. And credit will have to be possible for "failed" attempts and initiatives that, at the same time, demonstrated the skills and approaches of entrepreneurship. After all, most entrepreneurs are "wrong" a few times before they are "right" as they look for new and innovative ways.

#### EXAMPLE

Use a varied assortment of evaluation strategies, including:

- self-evaluation
- peer evaluation
- group evaluation
- evaluation of decision making
- evaluation of creative thinking
- evaluation of goal achievement
- performance appraisal forms
- failure analysis assessment

- personal interviews
- attitude surveys
- written assignments
- oral presentations
- projects
- venture plan assessments
- other

6. *The teacher as planner.* One of the most important skills for an entrepreneur is to be able to plan effectively. The effective enterprising teacher will not only teach students how to plan effectively, but he or she will also demonstrate the skills of effective planning. The classroom, lessons, field trips, and so on, can be planned in such a way so that students can clearly see the methods and benefits of effective planning. The entrepreneurial teacher should involve the students in various aspects of planning the program.

#### EXAMPLE

Present a detailed plan for the program to students at the beginning of the course. Clearly state the opportunities that you have identified for the course. Indicate goals, objectives, resources required, assessment points, contingency plans, possible problems, etc. Demonstrate how a well-organized plan can be implemented and how it can be designed to foresee possible problems.

Share a detailed lesson plan with students.

7. *The teacher and failure.* A distinguishing feature of many entrepreneurs is their attitude toward failure. Most entrepreneurs experience one or more failures before they succeed. But they look upon failures as learning experiences and stepping stones to future success.

Most teachers will also experience failures. For instance, a new technique won't work; a new resource doesn't do its job. The more innovative the teacher is in the classroom, the greater the likelihood of failure.

The enterprising teacher can take advantage of failures to demonstrate a positive attitude toward the failure. Share the failure with students. Analyze what was wrong and what was right. What could be done differently? How could information from the failure be used toward a future success?

The enterprising teacher, drawing on personal experience, can do a great deal to foster a more entrepreneurial approach to failure among students.



### EXAMPLE

Suggest a number of entrepreneurial opportunities to the class. Watch for responses to identify one that they think is particularly poor. Tell students that it is your favorite opportunity. Make a case for why, then let students tell you what's wrong with it. Tell them not to be "gentle" and "kind" but to "tell it like it is." Demonstrate how to accept criticism. Seek out more detail from students about their criticisms. Push them to be specific. Demonstrate how information can be gained from criticism and from a "failed" idea. Try to generate a good opportunity from this bad one based on their feedback.

You will note that many of the above suggestions involve being relatively open with your students. This is consistent with one of the primary prerequisites for an entrepreneurship education classroom: there must be an atmosphere of trust. The relationship between teacher and student is very important. Teachers must develop an atmosphere of trust in the classroom in which students trust the teacher and the teacher trusts the students. This is one of the challenges for the entrepreneurial teacher but it is vitally important if confidence is to be established and initiative encouraged.

### APPLYING ENTERPRISING TEACHER CONCEPTS TO A LESSON PLAN

The sample lessons presented in this *Master Curriculum Guide* are only general outlines for an enterprising teacher. They lay out the key components of classroom presentations and recommend instructional methods. However, the teacher should not feel bound by these recommendations but should demonstrate flexibility in adapting and adapting the lessons to the students in his or her classroom.

Let us take Lesson 6 and briefly reflect on some alternative or supplements to the lesson. One of the most important economic concepts is the interdependency of the economic units within an economy. Circular flow is a good model to demonstrate this. The teacher may want to bring a set of dominoes to class and stand them on a desk so that, once the class is present, tapping the first domino will cause the sequence in which one domino topples the next, resulting in a chain reaction, or the domino theory. What this demonstrates is that a decision by one economic entity can have an effect on other entities in various ways so that each decision by a consumer or producer will affect myriad other producers and consumers.

Another idea to build on the circular flow concept is that economies are dynamic entities and are always in a state of change. Let's conjure up an illustration. Ask the students how many are currently working. Ask those

students who are working whether they are consumers or producers. We would hope they would respond that they are both. Then ask one student to share with the class how he or she earns and spends the money and how the process of earning and spending acts on other people, either in creating sales positions or in creating new manufacturing jobs.

The question is: What is the role of the entrepreneur in all of this? Ask the students where they think the entrepreneur fits. A consumer? A producer? What functions might the entrepreneur perform that would create either new products or new methods of disseminating products? What the students should be led to realize through their own discussions is that entrepreneurs are one of the dynamic factors in the economy and that, through their invention or innovation, they create new businesses, produce new products, create new jobs, and enhance the well-being of both consumers and producers through the circular flow process.

### SUMMARY AND CONCLUSIONS

The teacher can be the architect of an effective learning environment for entrepreneurship as well as serving as an effective role model by embodying and demonstrating entrepreneurial characteristics, attitudes, and skills. The educator, in developing an effective entrepreneurship education program, will have to keep a number of things in mind, including:

- course content
- the learning environment
- the delivery system, including strategies and techniques
- methods of evaluation
- resource selection
- community linkages

The enterprising educator may have to overcome barriers and resistance to new techniques, strategies, activities, and so on. His or her perseverance, commitment, and creativity may be called upon to overcome such resistance that may flow from those comfortable with tradition and established practice. The enterprising educator will need an effective support network extending throughout the school and into the community. And the teacher will have to take an enterprising approach in the classroom.

To conclude these thoughts on the enterprising teacher, consider the following suggestions for your entrepreneurship education program:

- Minimize use of resources or teaching techniques that focus on *right* answers; a single right answer should not be sought or expected.
- The entrepreneurship education program should be highly participatory with a hands-on focus. It should be activity based.
- The entrepreneurship education program should be goal/achievement oriented.
- The entrepreneurship education program should enable short-term accomplishments by students.
- The entrepreneurship education program should have a community integration focus.
- In an entrepreneurship education program, a variety of approaches and teaching styles should be utilized.
- An entrepreneurship education program should have elements that surprise the student and present the

*unexpected* as well as provide opportunities for . n and excitement.

- An entrepreneurship education program should provide a broad focus for entrepreneurial ventures and initiatives, not just small business start-ups.
- An entrepreneurship education program should provide students with frequent and unanticipated feedback.
- An entrepreneurship education program should entail approaches and activities that seek to build self-confidence in the student.
- The methods and resources used in an entrepreneurship education program should enable and encourage group/team activities.
- An entrepreneurship education program should focus on the positive ways to handle and learn from failure.

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Economics: What and When  
Scope and Sequence Guidelines, K-12

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Intermediate Level

Junior High School Level

Basic Business and Consumer Education

Consumer Economics

Economics and Entrepreneurship

High School Economics Courses

International Trade

United States History

World Studies

Using Economics in Social Studies Methods Courses

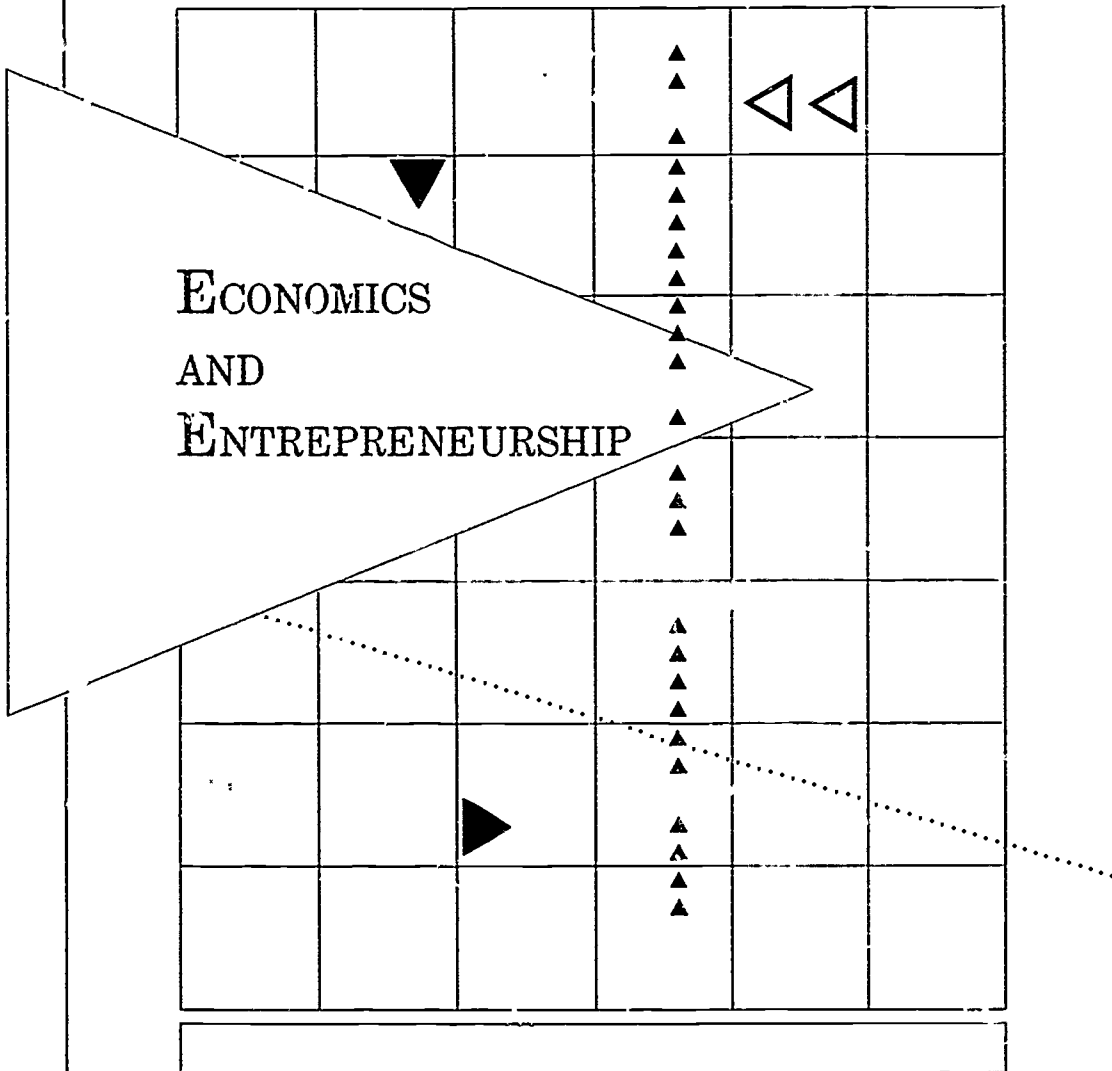


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# STUDENT ACTIVITIES

## MCCG MASTER CURRICULUM GUIDE



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# ACTIVITY 1 • PART A

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## *Entrepreneurs—then and now* *Benjamin Franklin*

1706–1790

Benjamin Franklin was one of 17 children of a poor but honest candlemaker in Boston. There was not enough money to allow him to go to school so he became an apprentice printer to his brother. This was an unhappy relationship because, like many brothers, they agreed on little and did not work well together. While a teenager, Franklin ran away and eventually went to England where he perfected his skills as a printer.

He returned to the United States and was recognized as one of the most skilled printers in the colonies. He moved to Philadelphia in the late 1720s. He found it was difficult to become established as a printer in Philadelphia because there was a large number of other printers already in business. The only way he could succeed was to do it better. He started a new newspaper, *The Pennsylvania Gazette*. What made his paper a success was that it included many entertaining and clever sayings, as well as being written in a light and sometimes comical fashion.

But by far Franklin's most profitable enterprise was *Poor Richard's Almanack*, which he published annually between 1732 and 1757. What made *Poor Richard's Almanack* unique was that it was "a book for every member of the family." It included recipes, poetry, historical dates, maps, and the times of the court sessions. For parents, the almanac was arranged so that they could

use it to teach their children the alphabet and how to read. The sales of *Poor Richard's Almanack* ultimately reached 10,000 copies a year—second only to the Bible in the colonies.

Franklin was also the first person to believe in newspaper advertising. He recognized that the price of newspapers to the public could be kept down if part of the cost was picked up by advertisers. But he could not convince other businesses to advertise in his newspaper. So he began by advertising an invention of his own, the Franklin stove. The stove was an ingenious device that was a superior way of heating cold and drafty colonial homes. Sales of his stove boomed due to advertising.

Other colonial merchants began to advertise, too. In addition to being a shrewd businessman, Franklin was also a great inventor. In fact, only Thomas Edison has more inventions to his credit than does Benjamin Franklin. He experimented with electricity. He invented bifocal glasses. He devised a variety of medicines.

Franklin became one of America's greatest statesmen. He was also a great philanthropist. It was said of him that his life contained the unique elements that are identified in the American business success story: ambition, creative enterprise, self-education, research and invention, community service, and philanthropy.

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# ACTIVITY 1 • PART B

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## *Entrepreneurs—then and now* *Milton Bradley* 1836–1911

### *Milton Bradley Games*

When Abraham Lincoln first grew a beard during the 1860 presidential campaign, it almost spelled financial ruin for a young Massachusetts lithographer named Milton Bradley.

The owner of a Springfield print shop, Bradley had been cashing in on the upcoming election by reproducing a portrait that showed the Republican candidate with a hairless chin. When Lincoln suddenly rendered the likeness obsolete, Bradley was forced to destroy several hundred thousand prints. This put the lithographer on the razor's edge of bankruptcy, until a friend suggested that he try inventing a board game, which he could then

print with his idle press.

Bradley followed his friend's advice and came up with the *Checkered Game of Life*, a contest in which players racked up points by landing on squares with words like *Truth* and *Honor*, while avoiding ones with *Ruin* and *Intemperance*. Peddling the game personally throughout New York and New England, Bradley sold 45,000 copies the first year. Shortly thereafter he became the top game manufacturer in the United States, a multimillionaire and—undoubtedly—one of the biggest fans of Abe Lincoln's beard.

Source: Fucini, J. & S. *Entrepreneurs. The Men and Women Behind Famous Brand Names and How They Made It*. G. K. Hall & Co. © 1985. Reprinted with the permission of G. K. Hall & Co., Boston.

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# ACTIVITY 1 • PART C

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## *Entrepreneurs – then and now* *Maurice McDonald*

1902–1971

## *Richard McDonald*

1909–

### *McDonald's Hamburgers*

Brothers Maurice and Richard McDonald left their New Hampshire village of Bedford for Hollywood in 1928 with dreams of becoming actors.

It wasn't on theater marquees, however, but under the golden arches of a San Bernardino hamburger restaurant that the two would later see their name in lights. After failing to make it as actors, the McDonalds ran several businesses, including a movie theater, before opening their hamburger stand in 1948. Unlike similar restaurants that prepared food to order, the McDonalds' stand served precooked, ready-to-go hamburgers for 15¢.

In 1954 their business caught the attention of Ray

Kroc (1902–1984), a former big-band pianist who was then working as a sales agent for a milkshake mixer firm. Kroc convinced the brothers to allow him to sell the McDonalds' name and concept to other restaurant operators.

There were some 300 McDonald's franchises by 1961, when Kroc bought out the brothers (who then retired) for \$2.7 million.

Although this sum would seem small compared to the company's eventual success, the brothers remained philosophical. "We didn't know if this was just a fad that would peter out," Richard McDonald recalled in 1983, "but I have no regrets."

*Source:* Fucini, J. & S. *Entrepreneurs. The Men and Women Behind Famous Brand Names and How They Made It.* G. K. Hall & Co. © 1985. Reprinted with the permission of G. K. Hall & Co., Boston.

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# ACTIVITY 1 • PART D

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## *Entrepreneurs—then and now* *Berry Gordy, Jr.* 1929—

### *Creator of the Motown Sound*

There are very few individuals in this country, and probably around the world, who have not heard of or been influenced in some way by the Motown sound. The list of great stars is seemingly endless.

Smokey Robinson, Diana Ross, Marvin Gaye, The Temptations, Lionel Richie, The Jackson Five, and Stevie Wonder are only a few of these great performers who during the 1960s and 1970s put a lot of soul into the music world and the nation. The development and significance of the music, however, did not come about by accident. It was the direct result of the ambition and entrepreneurial ability of one man.

Berry Gordy, Jr., was born the seventh of eight children in Detroit on November 26, 1929. Although he never finished high school, Berry obtained his high school equivalency diploma while he served in the Army. When he left the service, he initially worked with his father, who was a plastering contractor. Berry then took a job at a Ford Motor Company plant where he made about \$80 a week. Berry found the work not to his liking. He started, with a partner, a record store called the 3-

D Mart, which failed shortly thereafter. However, a man of Berry's ambition, energy, and perseverance was not to be kept down for very long.

In 1959, Berry Gordy, Jr., borrowed \$800 from his family and started a small record company. The company was not an instant success. It was not until 1962 that the company was in good financial shape. In that year, Motown had 11 Top Ten Rock and Blues hits and was firmly established in the recording industry. The number of hits continued to roll out of the studios and into the record stores throughout the nation. There have been a number of significant results from that initial investment of \$800 by Berry Gordy, Jr. The fact that it has made him many millions of dollars over the years is only one. There is also the tremendous social impact that Motown Records has had in America. Through music the nation has developed a greater sense of togetherness as opposed to the discrimination and conflict of the time when Berry Gordy started the business. The gains made by many black entertainers and other professionals would not have been possible without the success of Motown.

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# ACTIVITY 1 • PART E

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## *Entrepreneurs—then and now* *Laura Clough Scudder* 1881–1959

Although Laura Clough Scudder had already achieved a place in history in 1918 as the first female attorney in Ukiah, California, when she died in 1959 she was hailed as the “Potato Chip Queen of the West.” During her lifetime, Laura Scudder earned degrees in law and nursing, and built a home-grown potato chip business into a multimillion-dollar empire that spanned the West Coast.

In the 1920s grocery stores sold potato chips by the pound from glass display cases. Grocers put the chips in paper bags when they were purchased, and by the time the consumer arrived home, the chips were often stale and broken. Scudder decided that she could make better potato chips and invented a way to package them to keep them fresh. The new method of packaging provided the added advantage of allowing customers to serve themselves.

In 1926, Scudder produced her first batch of kettle-fried potato chips in the kitchen of her home. She began with 200 pounds of potatoes—washed, peeled, and sliced by hand. Later, the business was moved to a brick building that she and her husband built next to their home.

As the sales grew, Scudder hired other women to

help. The employees took sheets of waxed paper home at night and hand-ironed them into bags. The next day at work, they filled the bags with fresh potato chips and sealed each bag at the top with more hot ironing.

During the early years of the business, the Scudder family delivered their bags of potato chips to stores in the family automobile. Soon, they found they needed to purchase a panel truck to deliver the growing number of bags sold. Originally delivering her Mayflower Potato Chips in southern California only, Scudder eventually branched out to include northern California, where grocers sold her chips under the name Blue Bird Potato Chip Company.

By 1953 Scudder's potato chip operation had outgrown the original plant and she opened a second manufacturing plant in Fresno, California. The business now employed 1,000 people and accounted for about 50 percent of the potato chip market in California. Annual sales climbed to \$15 million. In 1957, Scudder sold her potato chip company to Signal Oil and Gas Company for nearly \$6 million.

*Source:* Adapted from “From the Ground Up, The Entrepreneurs Behind Household Names,” by Frances Huffman. Reprinted with permission from *Entrepreneur Magazine*, Irvine, CA, September 1988.



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# ACTIVITY 1 • PART F

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## *Entrepreneurs—then and now* *Mary Anne Jackson* 1954—

Juggling a career and motherhood, Mary Anne Jackson, 35, found herself devoting Sunday nights to preparing tasty, nutritious meals that would be easy for a baby-sitter to serve her young daughter when she was at work. When she lost her job, Jackson turned this Sunday night routine into a business.

Her company—My Own Meals, Inc.—is the first to mass-market packaged meals for children aged two to eight. The company produces five different meals with names such as “My Turkey Meatballs” and “Chicken, Please.” The meals retail for less than \$3.00 each.

The meals are pressure-cooked and vacuum-sealed in plastic pouches using a retort process, which makes them shelf-stable. The meals can be easily carried in a purse and heated at a friend’s house. Because they are not frozen, they heat up in a few minutes. The retort packaging also enables Jackson to vie for shelf space in supermarkets rather than slots in the overcrowded frozen food section, which are harder to come by.

Since April 1988, the company has been selling meals through a supermarket chain in Illinois and through the mail. Company sales totaled \$500,000 for the year.

*Source:* “100 Ideas: Meals for Tots,” *Venture Magazine*, New York, NY, November 1988. Reprinted with permission.

Name \_\_\_\_\_

## ACTIVITY 2

### *Important traits for the successful entrepreneur*

Rate the traits below in terms of how important you think they are for entrepreneurial success.

A "1" would indicate that you believe the trait is *relatively unimportant*.

A "2" would indicate that you believe the trait is *somewhat important*.

A "3" would indicate that you believe the trait is *very important*.

Not important 1	Somewhat important 2	Very important 3	Quality or trait
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. a high level of energy
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. good physical health
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. a strong need to achieve
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. a willingness to take risks
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. a desire to create
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. a need to closely associate with others
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. a strong desire for money
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. a willingness to tolerate uncertainty
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. an ability to get along with employees
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. being well organized
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. self-reliance
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. a need for power
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. patience
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. competitiveness
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. desire and willingness to take the initiative
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16. self-confidence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	17. versatility (ability to do many things)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	18. perseverance (sticking at something difficult)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	19. innovativeness (willingness and ability to do something untried)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	20. ability to lead effectively

Source: Adapted from *Entrepreneurship* by William B. Jennings, Canadian Foundation for Economic Education, 1985.

From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

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# ACTIVITY 3

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## *Ratings of traits by entrepreneurs*

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### *A. Most important for success*

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- perseverance (18)
- desire and willingness to take the initiative (15)
- competitiveness (14)
- self-reliance (11)
- a strong need to achieve (3)
- self-confidence (16)
- good physical health (2)

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### *B. Important for success*

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- a willingness to take risks (4)
- a high level of energy (1)
- an ability to get along with employees (9)
- versatility (17)
- a desire to create (5)
- innovativeness (19)

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### *C. Least important for success*

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- ability to lead effectively (20)
- a willingness to tolerate uncertainty (8)
- a strong desire for money (7)
- patience (13)
- being well organized (10)
- a need for power (12)
- a need to closely associate with others (6)

Source: Based on testing reported in "That Urge to Achieve," by D. C. McClelland in *Entrepreneurship and Venture Capital*, Prentice-Hall, 1975. (The numbers in parentheses correspond with the numerical listing shown for Activity 2.)

Name \_\_\_\_\_

# ACTIVITY 4

## *My entrepreneurial traits*

To what degree do you believe you possess entrepreneurial traits?  
Indicate your opinion by checking the boxes below.

A "1" would indicate that you feel you possess the trait to a *rather low degree*.

A "2" would indicate that you feel you possess the trait to a *moderate degree*.

A "3" would indicate that you feel you possess the trait to a *rather high degree*.

Low 1	Moderate 2	High 3	Quality or trait
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. a high level of energy
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. good physical health
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. a strong need to achieve
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. a willingness to take risks
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. a desire to create
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. a need to closely associate with others
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. a strong desire for money
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. a willingness to tolerate uncertainty
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. an ability to get along with employees
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. being well organized
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. self-reliance
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. a need for power
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. patience
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. competitiveness
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. desire and willingness to take the initiative
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16. self-confidence
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	17. versatility (ability to do many things)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	18. perseverance (sticking with something difficult)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	19. innovativeness (willingness and ability to do something untried)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	20. ability to lead effectively

Source: Adapted from *Entrepreneurship* by William B. Jennings, Canadian Foundation for Economic Education, 1985.

From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

Name \_\_\_\_\_

# ACTIVITY 5

## *Julie's dream*

Read the case study below; then answer the questions that follow.

As a high school and college student, Julie Smithson hardly ever followed the crowd. Her teachers were always amazed at her creativity and her willingness to work hard on any project that she tackled. She had a high energy level which enabled her to complete many tasks during a given amount of time.

After college, Julie worked as a buyer for a large department store in a major city. She purchased merchandise for the toddler's department in the store. After three years, she decided to return to her hometown. Her employer hated to see her resign because of the high-quality work that she did.

After returning home, she worked at various jobs in the area of sales. One of Julie's dreams was to own her own clothing store. She wanted to be her own boss. Her dad was willing to provide some money to help her get started. She would still have to get some financing from the bank. Since the area was growing rapidly, many new families were moving in. The schools were crowded with students, kindergarten through high school. Julie decided that a clothing store catering to high school and college students could be an exciting and hopefully profitable venture. A unisex theme would be carried out through the merchandise offered.

In August, just before everyone went back to school, she opened a boutique named "The Sharp Look." She hired one full-time person to work with her. During the first two months, many people visited the store, which was probably due to the advertising blitz she ran in the local paper.

After a year, she found that she did not have enough money to pay her employee, but her tax forms showed that she had made a small profit. She also was going to have trouble meeting the monthly payment on her bank loan. Also, her hired staff didn't stay with her very long. They did not like the way she interrupted the during their sales presentations. Julie interrupted because she wanted to make sure the customer was not misled. The accountant from her accounting service indicated that Julie should take advantage of some tax benefits offered by the government; she was reluctant to do so because she did not understand them. She also noticed that about half of her stock did not seem to be very popular.

Julie is in a predicament. Analyze her situation by answering these questions:

1. What are some indications that Julie took some positive, worthwhile actions during her first year of operation?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(Continued)

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2. What are some problems that Julie is having in her business?

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3. Economists define human capital as the productive ability of people. The productive ability of a firm can be improved by more education of the people who work there. Human capital can be improved through many different ways, such as on-the-job training, course work, securing advice from others, reading literature or talking with others in the same field. Indicate the educational experiences that are necessary for "The Sharp Look" to operate more effectively.

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4. Would this additional education be a cost to the firm? If so, how?

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(Continued)

5. How can one tell if the investment in education is worth the time and money put into it?

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6. Julie seemed to have many personal features required of an entrepreneur, such as creativity, intelligence, a willingness to work hard, a high energy level, and a desire to be her own boss. Is that all that is necessary to be a successful entrepreneur?

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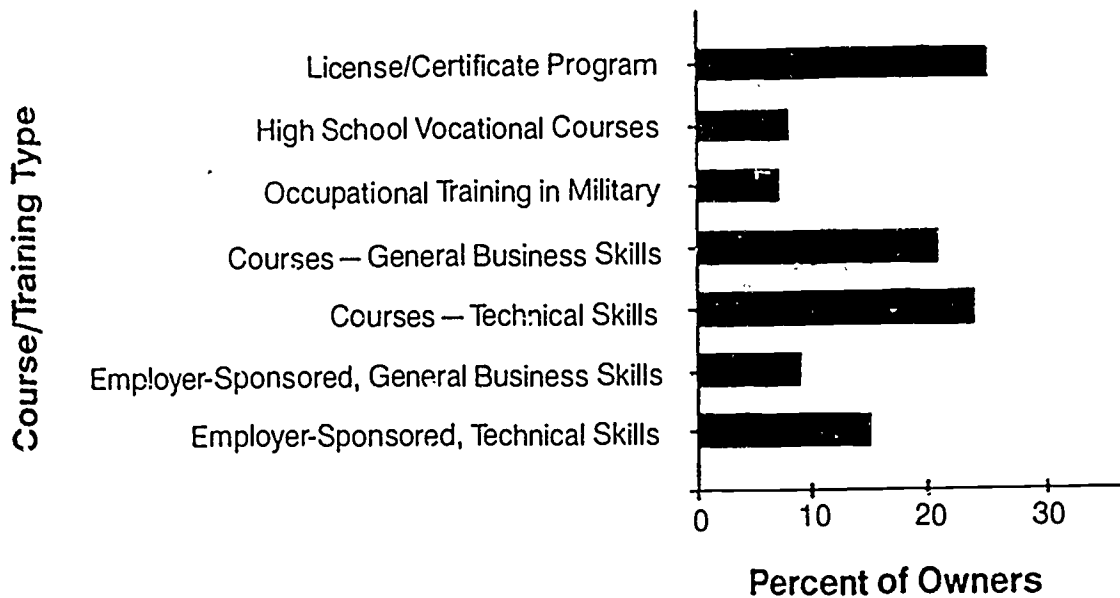
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## ACTIVITY 6

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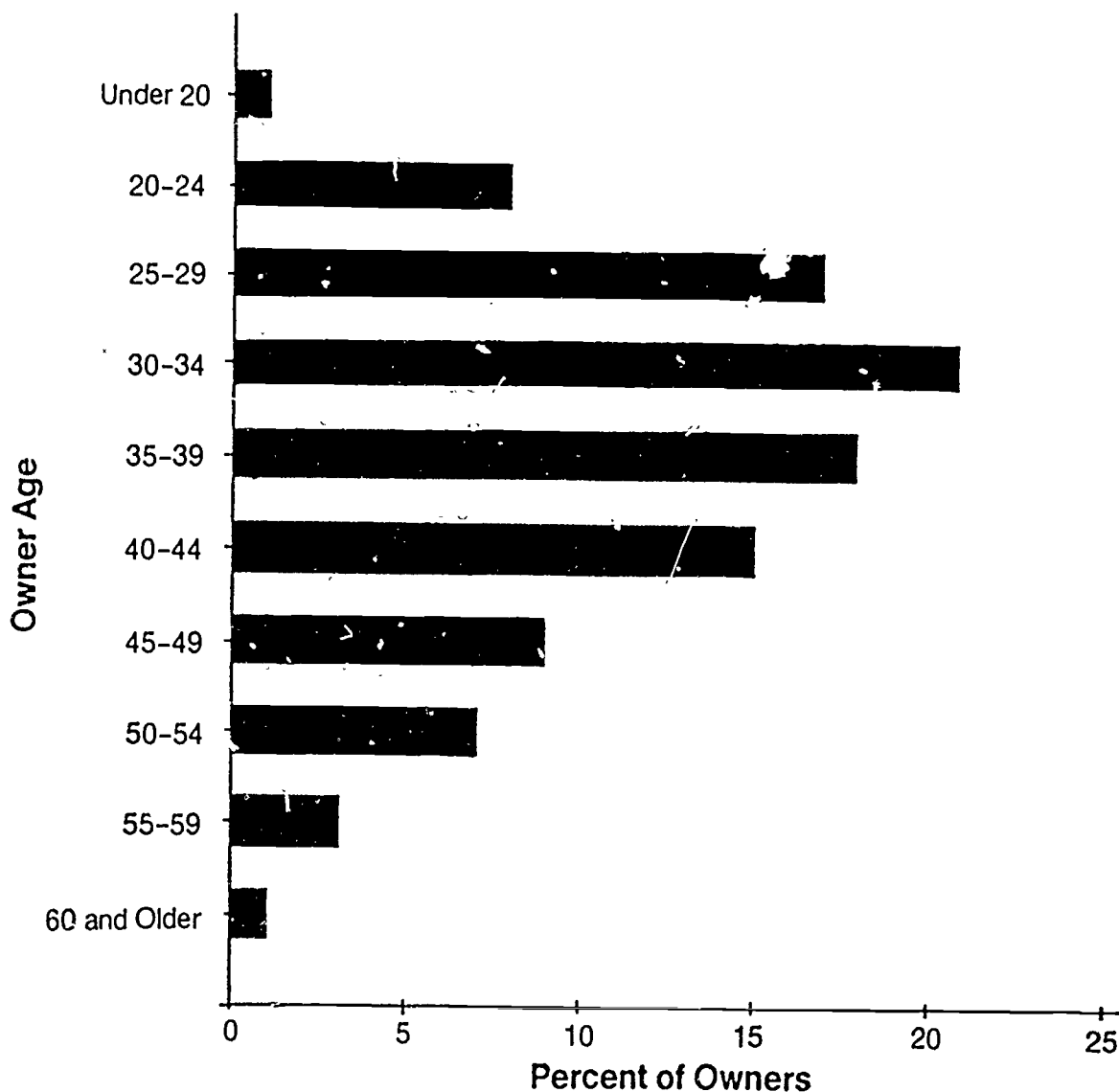
*Additional courses and training taken by new business owners prior to starting new businesses*



Source: Data developed and provided by The NFIB Foundation and sponsored by the American Express Travel Related Services Company, Inc. Reported in *Small Business Primer*, © 1988 The NFIB Foundation, p. 15.

# ACTIVITY 7

## *Owner age when business formed*



Source: Data developed and provided by The NFIB Foundation and sponsored by the American Express Travel Related Services Company, Inc. Reported in *Small Business Primer*, © 1988 The NFIB Foundation, p. 11.

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Name \_\_\_\_\_

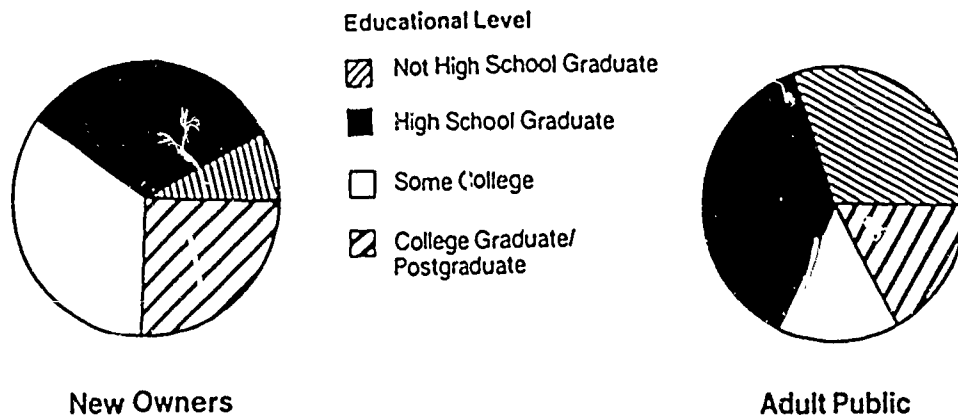
## ACTIVITY 8

### *Formal education of new business owners and the adult public*

#### INSTRUCTIONS

The pie charts below show the formal education of the adult public and the owners of businesses. Formal education is the number of educational steps or grades achieved by an individual. Study the pie charts to answer the questions that follow.

Formal Education of New Business Owners and the Adult Public



Source: The NFIB Foundation and Statistical Abstract of the United States, 1986. Reported in *Small Business Primer*, © 1988 The NFIB Foundation, p. 15.

1. Approximately what percent of the new owners are high school graduates?  
a. 70%–75%    b. 50%–55%    c. 35%–40%    d. 10%–15%
2. Are any of the new business owners individuals who have not graduated from high school? If there are, approximately what percent?

(Continued)

From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

3. Approximately 30 to 35% of the adult public in 1986 did not graduate from high school. Was the percentage of non-high school graduates starting new businesses higher or lower than 30% to 35%? Why do you think this is true?

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4. Approximately 20% of the public have graduated from college. Is the percentage of college graduates starting new businesses higher or lower than 20%?

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5. Based on a comparison of the pie charts, what is a generalization that you can make about the formal education background of people starting new businesses when compared to the general public?

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6. Can you think of reasons why new business owners have more education than the general public? List the reasons in the space below.

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Name \_\_\_\_\_

# ACTIVITY 9

## Tony's production choice

Tony owns a small Italian restaurant where he sells takeout pizza and spaghetti dinners.

He doesn't have much space in his kitchen so there is a limit to the amount of food he can prepare during each evening. If he made nothing but pizza, he could produce 100 a night. On the other hand, he could produce 300

takeout dinners if he cooked only spaghetti. He could also make different combinations of the two products. Each additional pizza he makes means he is able to make three fewer spaghetti dinners, and vice versa.

Study the table Tony has made below and answer the following questions:

Time spent per product	Number of pizzas	Number of spaghetti dinners
all on pizzas	100 pizzas	0 dinners
3/4 on pizzas 1/4 on spaghetti	75 pizzas	75 dinners
1/2 on pizzas 1/2 on spaghetti	50 pizzas	150 dinners
1/4 on pizzas 3/4 on spaghetti	25 pizzas	225 dinners
all on spaghetti	0 pizzas	300 dinners

1. If Tony wants to make 75 pizzas a night, how many spaghetti dinners will he also be able to make?  
\_\_\_\_\_

2. If Tony decides to reduce his pizza production to 50 from 75, how many *more* spaghetti dinners will he be able to produce than before? \_\_\_\_\_

3. Identify examples of each factor of production that must have been used to produce one of Tony's pizzas.

Land \_\_\_\_\_

Labor \_\_\_\_\_

Capital \_\_\_\_\_

Entrepreneurship \_\_\_\_\_

(Continued)

4. What would Tony's opportunity cost be if he decided to increase his production of pizzas from 75 to 100?

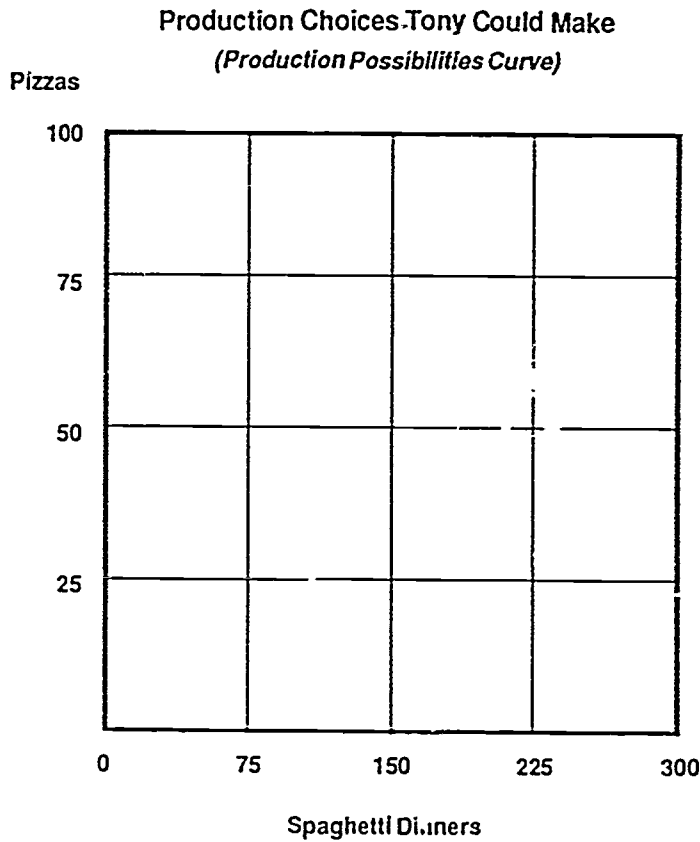
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5. How does this situation demonstrate the central economic problem of scarcity?

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Now use the data from the table on the front of this sheet to draw a graph of the different production choices Tony could make.



\_\_\_\_\_  
Name

## ACTIVITY 10

### *What would you do if you won the lottery?*

Choose four people (at least one adult) to ask what they would buy if they won \$1,000 in a lottery. Write their answers in the spaces below.

Be prepared to talk in class about their answers and the questions at the bottom of the page.

PERSON NO. 1 was male  female

about \_\_\_\_\_ years old.

This person would buy \_\_\_\_\_

PERSON NO. 2 was male  female

about \_\_\_\_\_ years old.

This person would buy \_\_\_\_\_

PERSON NO. 3 was male  female

about \_\_\_\_\_ years old.

This person would buy \_\_\_\_\_

PERSON NO. 4 was male  female

about \_\_\_\_\_ years old.

This person would buy \_\_\_\_\_

*Think about the answers above and the questions below.  
Be prepared to discuss these questions in class.*

1. Why can't people have all the things they want?
2. How do people choose which things they want?
3. Why do different people want different things?

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Name \_\_\_\_\_

# ACTIVITY 11

## Comprehension quiz, lesson 4

### PART I

Read the statements below.

Place a "T" in front of each of the statements you think is true and ignore the space below.

Place an "F" in front of each of the statements you think is false; then write the statement correctly in the space provided.

\_\_\_\_\_ 1. Scarcity exists because many people do not have enough money.

\_\_\_\_\_

\_\_\_\_\_ 2. It is necessary to have all four factors of production for production to take place.

\_\_\_\_\_

\_\_\_\_\_ 3. The four factors of production are land, labor, money, and entrepreneurship.

\_\_\_\_\_

\_\_\_\_\_ 4. A production possibilities curve shows different combinations of two products that can be produced from a set of resources.

\_\_\_\_\_

\_\_\_\_\_ 5. If I decide to spend \$6 to go to a movie instead of using the money to buy a book, my opportunity cost is the value of the \$6 I spent on the movie.

\_\_\_\_\_

\_\_\_\_\_

### Part II

Study the graph to the right and answer the following questions.

6. If Joe is baking 35 cakes, how many pies can he bake?

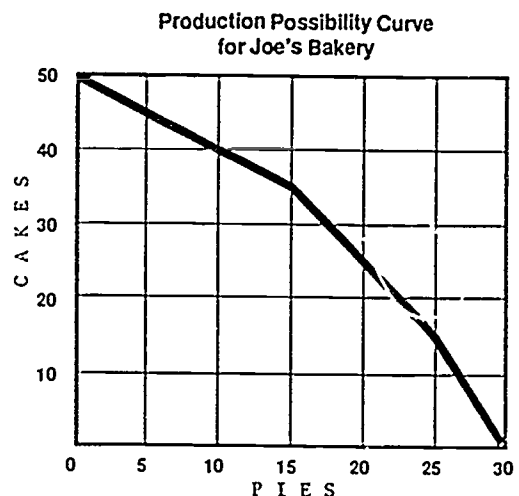
\_\_\_\_\_

7. If Joe decides to bake 25 pies, how many fewer cakes will he be able to produce?

\_\_\_\_\_

8. What would be Joe's opportunity cost if he decided to use all his resources to make 30 pies?

\_\_\_\_\_



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# ACTIVITY 12

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## *Basic economic systems*

All countries have developed economic systems (ways of producing and distributing goods and services). Economic systems are used to answer the three basic economic questions: What goods and services are to be produced? How are goods and services to be produced? For whom are goods and services to be produced? Different types of economic systems have different mechanisms (methods) for answering these questions.

Type of economic system	What to produce?	How to produce?	For whom to produce?
MARKET ECONOMY	Business firms produce goods and services that consumers are willing and able to buy for prices that will yield profits for the firms.	Seeking to compete profitably in the marketplace, individual business owners decide what combinations of productive resources (land, labor, capital, and entrepreneurship) they will use in producing goods and services.	Finished goods and services are distributed to individuals and households who are willing and able to buy them.
COMMAND ECONOMY	A central planning authority (government agency) decides what goods and services to produce.	A central planning authority (government agency) decides what combinations of productive resources will be used in producing goods and services.	A central planning authority (government agency) decides who receive the goods and services that are produced.
TRADITIONAL ECONOMY	The goods and services produced today are the same as those produced in previous generations.	The combinations of productive resources used in producing goods and services are the same as those by past generations.	Finished goods and services are traded locally for other finished goods and services.

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# ACTIVITY 13 • PART A

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## *Scenarios for economic systems comparison*

1. A new strain of low-cholesterol corn is developed.
2. The country's landfills are becoming scarce.
3. A baby boom has started.
4. There is an excess supply of steel.
5. A livestock killer bee has invaded the country.
6. The cost of milk has sharply increased.
7. Two neighboring countries are at war.
8. A shortage of nurses has occurred.
9. Denim coats are the new fad.
10. Medical research proves that citrus fruit causes high blood pressure.
11. Vans cause great damage to highways.
12. Vocational jobs are plentiful.

Name \_\_\_\_\_

# ACTIVITY 13 • PART B

## *Response page*

**Situation No.**

Type of economic system: \_\_\_\_\_

Response of economic system to this situation:

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**Situation No.**

Type of economic system: \_\_\_\_\_

Response of economic system to this situation:

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**Situation No.**

Type of economic system: \_\_\_\_\_

Response of economic system to this situation:

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**Situation No.**

Type of economic system: \_\_\_\_\_

Response of economic system to this situation:

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# ACTIVITY 14

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## *Contributions of competition*

- Can lead to lower prices
- Can lead to improved quality
- Can lead to larger variety of goods and services
- Can lead to better service
- Can lead to increased efficiency
- Can lead to greater sensitivity to consumers' needs and wants
- Can lead to faster responses to consumers' needs and wants
- Can lead to greater innovation

\_\_\_\_\_  
Name

# ACTIVITY 15

## *Product competition in a market economy*

**PRODUCT:** \_\_\_\_\_

**Price:** \_\_\_\_\_  
\_\_\_\_\_

**Quality:** \_\_\_\_\_  
\_\_\_\_\_

**Variety:** \_\_\_\_\_  
\_\_\_\_\_

**Service:** \_\_\_\_\_  
\_\_\_\_\_

**Efficiency:** \_\_\_\_\_  
\_\_\_\_\_

**Sensitivity:** \_\_\_\_\_  
\_\_\_\_\_

**Response:** \_\_\_\_\_  
\_\_\_\_\_

**Innovation:** \_\_\_\_\_  
\_\_\_\_\_

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# ACTIVITY 16

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## *Benefits of entrepreneurship to society*

*Entrepreneurs generate at least six overall benefits to society:*

1. Increased competition
2. Economic growth
3. Increased employment
4. Altered distribution of income
5. Economic efficiency
6. Increased opportunities for all individuals



Name \_\_\_\_\_

## ACTIVITY 17 • PART A

### *Entrepreneurs turn idle grain mill into highly automated flour producer*

Entrepreneurs are turning a long-idled grain mill into a highly automated one that processes flour for spaghetti and macaroni products. John C. Miller, president of the company that owns and runs the operation, said that the start-up could mean a whole new crop for farmers and would attract other flour-related business such as pet food, animal food, and snack food companies.

The original mill was built shortly after WWII to produce animal feed, but since 1971 has been kept idle. Earlier this year the mill was renovated and new automated machinery was installed. Miller notes that the

company has enough orders to operate the mill at capacity until next summer. He said the demand for pasta has been climbing an average of 5.6 percent a year in the past eight years and that the average American now consumes 13 pounds of pasta per year.

The plant, which is run by computer, takes only three people per shift to operate, but other workers are needed for maintenance, lab work, and other tasks. The mill's current work force of 20 is expected to expand to 35 by January.

#### QUESTIONS

1. What product was being produced by these entrepreneurs? \_\_\_\_\_
2. What did they do that was entrepreneurial? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. List at least three benefits to people in society from the entrepreneurial effort. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Source. "Entrepreneurs Turn Idle Grain Mill Into Highly Automated Flour Producer," by Thomas W. Gerdel, *The Plain Dealer*, December 25, 1987. Reprinted with permission.

Name \_\_\_\_\_

# ACTIVITY 17 • PART B

## *Entrepreneurship and employment*

A recent report issued by the United States Small Business Administration contained the following information. Last year new jobs in the American economy totaled over 4 million. Almost all of these jobs were generated by new or growing entrepreneurial businesses. Older, larger businesses actually reduced their level of employment by some 1.7 million workers. Increasingly, the United States economy has come to rely upon venture creators who also create jobs for America's growing work force.

It is not just the number of jobs that entrepreneurs create that makes them important to the economy. Over

90 percent of American workers first worked in a small and growing business. These businesses provide the first employment opportunities in which workers learn the skills and discipline necessary for success in later life.

Behind almost every job there is an entrepreneur. Even public sector jobs, such as police officers, teachers, and government workers, must be paid out of the tax revenues, which the government receives from private firms and the individuals employed by those firms. An entrepreneurial economy generates the additional tax dollars needed to support public services and public employment.

### QUESTIONS

1. Who creates most of the new jobs in the economy? \_\_\_\_\_  
\_\_\_\_\_
2. Most entry level jobs are to be found in what kinds of firms? \_\_\_\_\_  
\_\_\_\_\_
3. Why are government jobs dependent upon the efforts of entrepreneurs? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Source: Adapted from a report on small business, U.S. Small Business Administration, 1985.

Name \_\_\_\_\_

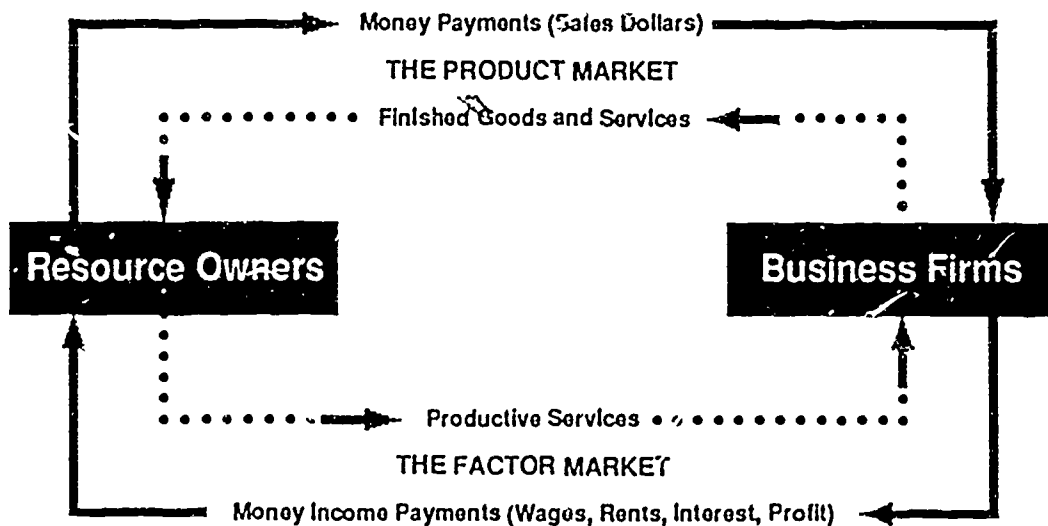
# ACTIVITY 18

*The circular flow of resources, goods, services, and money payments\**

## INSTRUCTIONS

Read the event below. Place the number of each in the appropriate space on the circular flow model.

<b>Event 1</b> Jill paid her bill at her local department store.	<b>Event 2</b> Yvon sold 100 acres of land to a firm that wants to build a factory on it.	<b>Event 3</b> Terry received a dividend from a corporation in which he owns stock.	<b>Event 4</b> Mrs. Chin purchased a rose bush from the nursery.
<b>Event 5</b> Maria received her paycheck last Friday.	<b>Event 6</b> Todd took home a new shirt he chose at a store.	<b>Event 7</b> Mrs. Tomson earned \$15,000 from the beauty shop she owns.	<b>Event 8</b> Tom had his car fixed at a local garage.
<b>Event 9</b> Karen received \$200 from a firm that rents a building she owns.	<b>Event 10</b> Shelly can't afford to buy a car so she leased one from a dealer.	<b>Event 11</b> Mr. Martinez received \$500 interest payment for the corporate bond he owns.	<b>Event 12</b> The ABC Co. took delivery of a new furnace it needed to make brass fittings.



\* Source: *A Framework for Teaching the Basic Concepts*, © Joint Council on Economic Education, New York, NY, p. 23.  
From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

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Name \_\_\_\_\_

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## **ACTIVITY 19**

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### *What happened in Upper Utopia?*

Read the case study below; then answer the questions that follow.

For many years the economy of Upper Utopia worked well. Firms made reasonable profits, workers earned fair wages, stores had good sales, everyone had a good standard of living and was quite happy. However, no one was really rich.

Some workers and some entrepreneurs came to feel they needed more: more money, nicer houses, longer vacations, bigger cars, etc. As it turned out, the workers who wanted higher wages were employed by the businesses whose owners wanted bigger profits. When the workers demanded higher wages, the owners raised the

price of their products even more. Soon the firm's sales fell. The owners made no profit and were unable to pay their workers. The workers were laid off and could not buy goods or services. Eventually the firm went out of business.

These events hurt other workers and businesses in the economy. The laid-off employees were unable to buy products manufactured by other firms. The closed business didn't buy raw materials, tools, or other factors of production. As a result, the entire economy went into a recession, which hurt everyone.

1. Where do firms earn the revenue that allows them to pay for the factors of production?

\_\_\_\_\_

2. Where do people earn the money that allows them to buy goods and services?

\_\_\_\_\_

3. If firms do not earn money, what will happen to their ability to pay for factors of production?

\_\_\_\_\_

4. If people do not receive income, what will happen to their ability to purchase goods and services?

\_\_\_\_\_

5. Explain why the factor and product markets depend on each other.

\_\_\_\_\_

\_\_\_\_\_

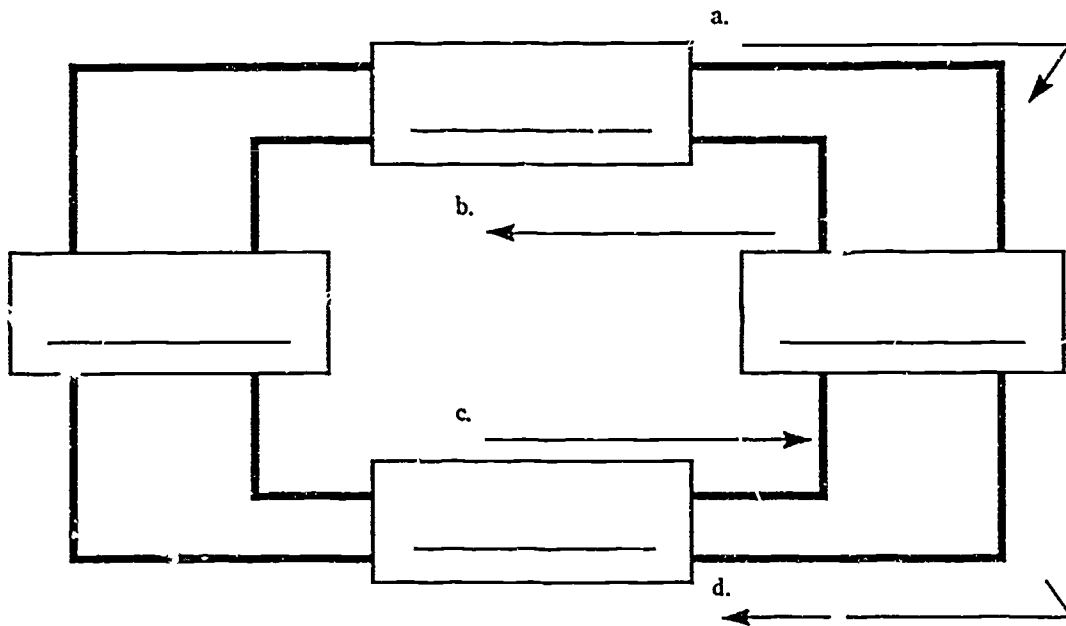
\_\_\_\_\_

Name \_\_\_\_\_

# ACTIVITY 20

## *My family and me in the circular flow model*

Below is a blank copy of the circular flow model. Label each part in the appropriate space. There is a letter at the start of some of the spaces. The same letters appear on the lines below the chart. For each letter, describe something you do, or a member of your family does, that fits into the blank on the circular flow model.



a. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

b. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

c. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

d. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Name

# ACTIVITY 21

## Comprehension quiz, lesson 6

### PART I

From the list below, choose the phrase that correctly completes the sentence and write the phrase in the appropriate blank.

factor market                      derived                      profit  
product market                  a mortgage payment        circular flow model

1. A \_\_\_\_\_ represents the flows of money, goods, and services, and other factors of production through the economy.
2. Food, shelter, and clothing are bought and sold in the \_\_\_\_\_.
3. Land, labor, capital, and entrepreneurship are bought and sold in the \_\_\_\_\_.
4. \_\_\_\_\_ is a part of the flow of money between the business and households that passes through the factor market.
5. \_\_\_\_\_ is a part of the flow of money between the households and business that passes through the product market.
6. Economists call the demand for factors of production \_\_\_\_\_ demand.

### PART II

Read the paragraph below and answer the following questions.

In 1849, when gold was first found at Sutter's Mill, there were very few people living in that part of California. Two years later thousands of people had moved there. Many people who never even looked for gold had jobs or ran businesses in the area.

7. Why were stores able to sell so many more goods in that part of California after the gold was found?  
\_\_\_\_\_

8. Why were so many people able to find jobs working in stores there? \_\_\_\_\_  
\_\_\_\_\_

9. When the gold ran out, why did many "boom towns" become "ghost towns"? \_\_\_\_\_  
\_\_\_\_\_

10. How does this example demonstrate the idea of derived demand? \_\_\_\_\_  
\_\_\_\_\_

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Name \_\_\_\_\_

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# ACTIVITY 22

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## *Responding to an entrepreneurial opportunity*

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### **Entrepreneurial Opportunity**

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#### **Definition**

A want, problem, or challenge that can be addressed, solved, and/or satisfied by an innovative initiative

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#### **Examples**

People are increasingly conscious of the food they eat and the water they drink

People are increasingly concerned about health and fitness

There is a need for widespread education regarding AIDS

Many people are mystified by computers

Many people cannot read or write

Australia is very "in"

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### **Entrepreneurial Idea**

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#### **Definition**

A specific innovative way to satisfy a want, overcome a problem, or meet a challenge

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#### **Examples**

A health food or fresh food restaurant

A new form of health club

A new, innovative way to provide AIDS education

A home education program on computers

A new type of program to combat illiteracy

An Australian film festival



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# ACTIVITY 23

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## *Brainstorming technique*

1. *Don't criticize another person's ideas.* Group members will tend to talk less if this happens. This means fewer ideas will be expressed. Group leaders should discourage such phrases as "That's a dumb idea."
2. *Encourage freewheeling.* The wilder the ideas, the better. It is easier to tame down a wild idea than it is to think up another one.
3. *Try for quantity.* The larger the number of ideas, the better the chances of getting good ones.
4. *Combine and build on the ideas of others.* Group members should state their own ideas. They should also suggest how the ideas of others could be turned into better ideas. Sometimes two or three ideas can be joined to form another idea.

### **One person started a brainstorming session by saying . . .**

"What new products not now available are needed for the home? Here is your opportunity to dream up all those gadgets, appliances, etc., that you believe would make life more enjoyable."

These are a few of the ideas generated in the session:

- Suction cups on the bottom of egg beaters to prevent skidding in the bowl
- Venetian blinds so constructed that the slats in the upper or lower half can be opened or closed independently of the other half
- Switches for doorbells so you can turn them off when children are asleep or when you don't want to be disturbed

### **Get together with two or three people to practice brainstorming . . .**

Start with the statement: "Name as many uses as you can for empty plastic household detergent bottles." How many did you list in your group? It will be interesting to compare your list with those of other groups in the class.

Even though brainstorming is used most often in groups, you can also use it alone. Follow these rules for individual brainstorming:

1. Don't judge your own ideas until you have finished the list. Never erase or scratch out an idea.
2. Do some freewheeling. Don't be afraid to write down some farfetched ideas.
3. Try for quantity. Remember, by writing down many ideas you increase your chances of getting good ideas.
4. Combine and improve. Write down all ideas that come to mind. Then add to the list by combining and improving ideas.

\_\_\_\_\_  
Name

# ACTIVITY 24

## *Invention, innovation, and entrepreneurship*

**1. Answer the following questions:**

a. What is the difference between an inventor and an entrepreneur?

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b. Can an inventor and an entrepreneur be the same person? Explain your answer.

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c. Are the same skills needed for the two roles?

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*(Continued)*

**2. In the space provided, list two examples of an entrepreneurial opportunity and provide at least one entrepreneurial idea for each.**

a. Entrepreneurial opportunity

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Entrepreneurial idea(s)

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b. Entrepreneurial opportunity

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Entrepreneurial idea(s)

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# ACTIVITY 25

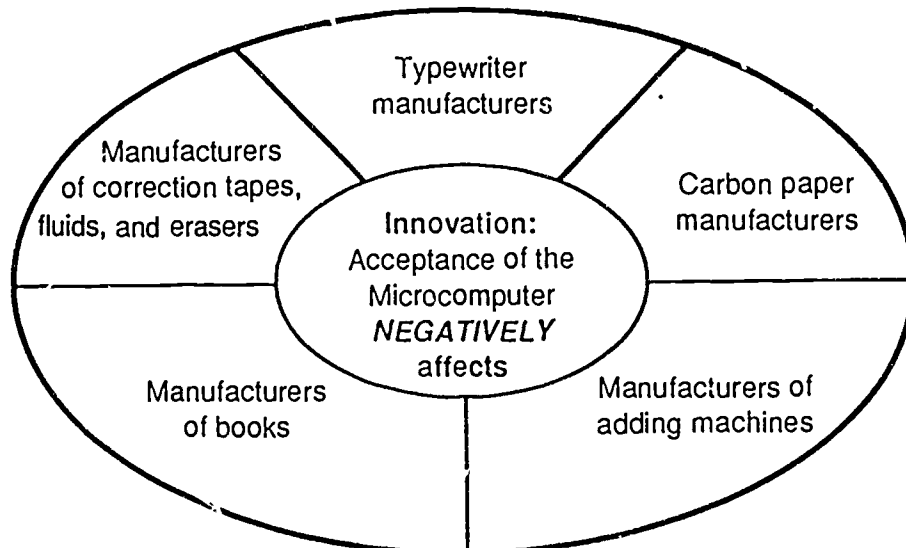
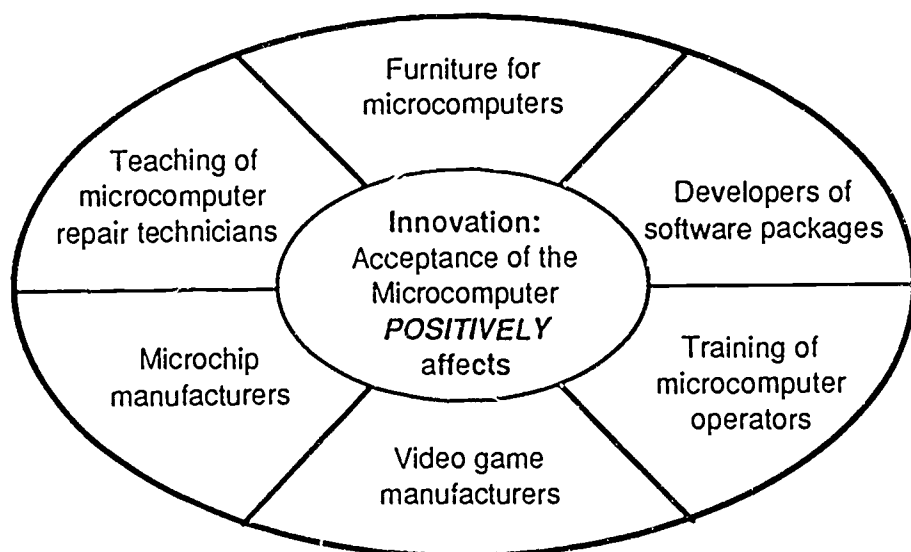
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## *Ripple effects in the marketplace: microcomputers*

### **INNOVATIONS GENERATE NEW INDUSTRIES AND ECONOMIC ACTIVITIES.**

An innovation not only affects those making and selling the innovation, but also encourages the development and sales of related goods and services. Innovation can also affect some industries and companies in a negative way—meaning that they suffer because of the acceptance of the innovation.

The diagram below illustrates these points



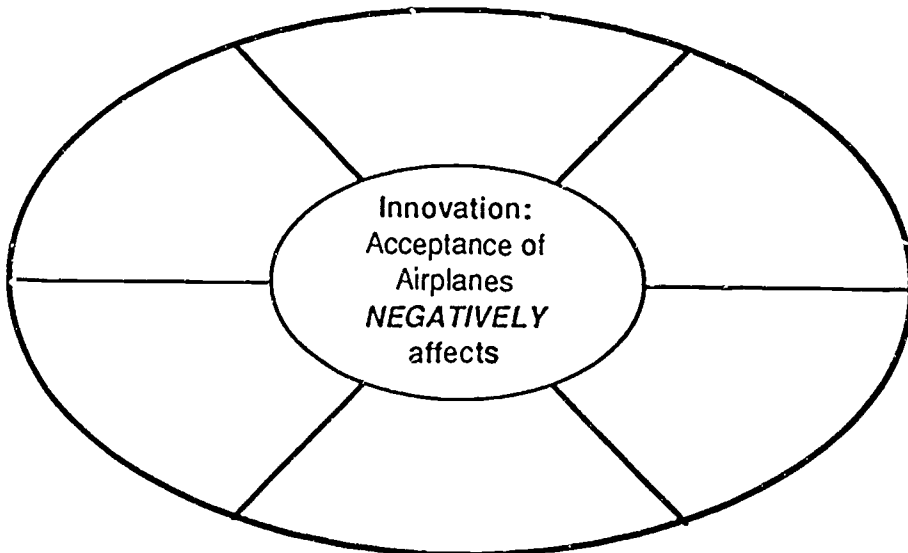
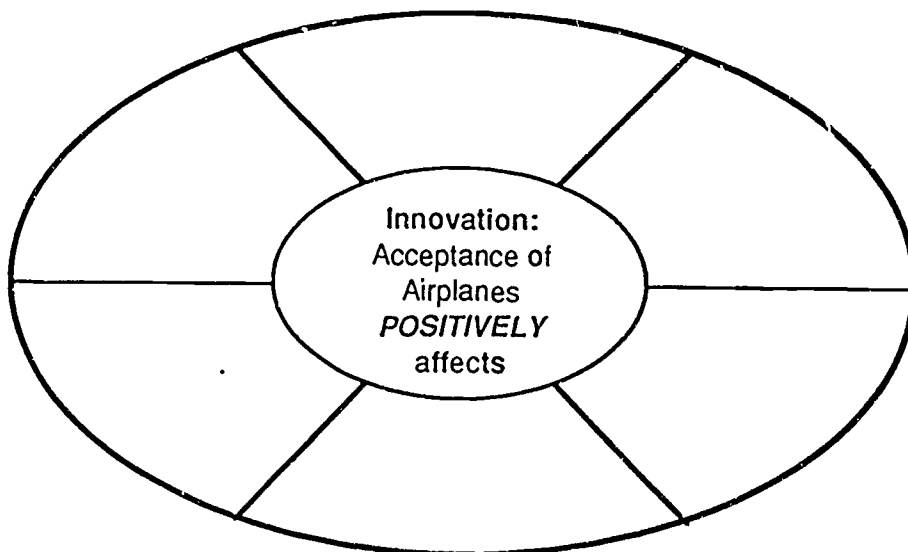
Name \_\_\_\_\_

# ACTIVITY 26

## *Ripple effects in the marketplace: airplanes*

### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the airplane.



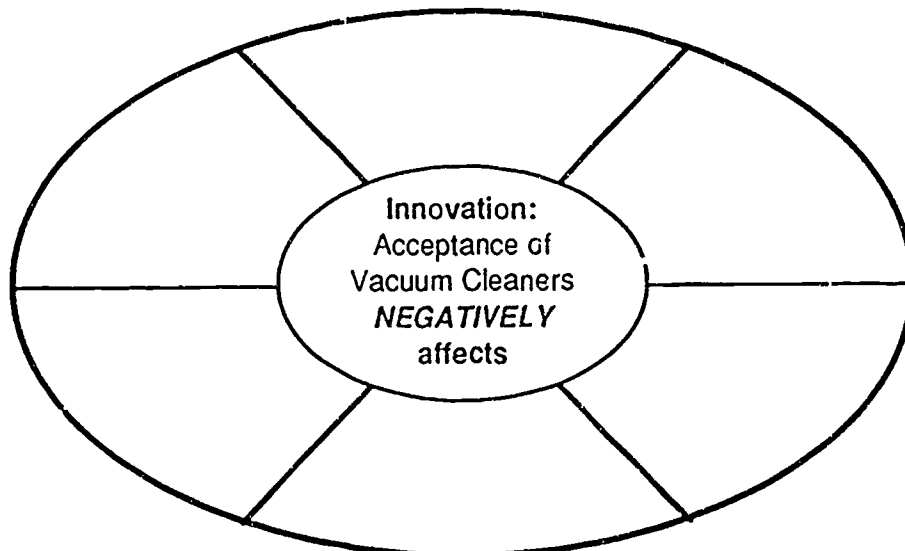
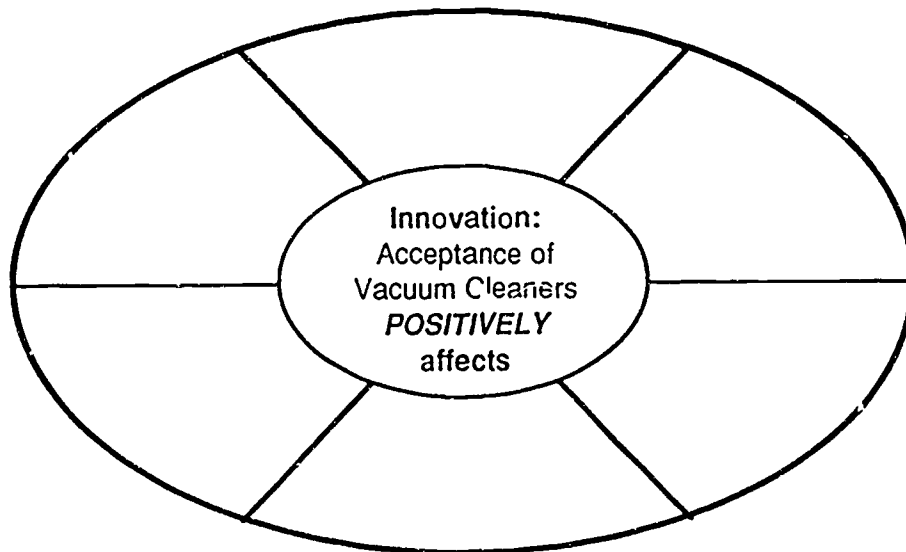
Name \_\_\_\_\_

## ACTIVITY 27

### *Ripple effects in the marketplace: vacuum cleaners*

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the vacuum cleaner.



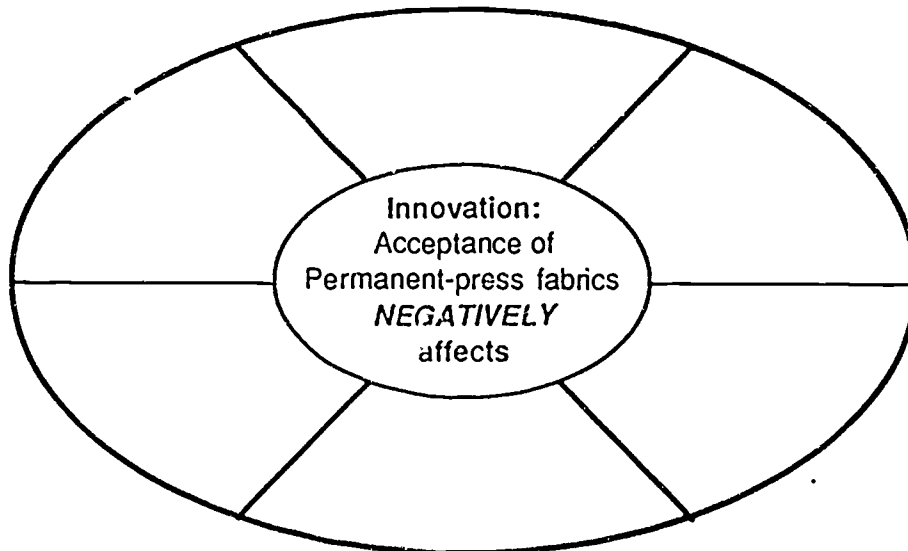
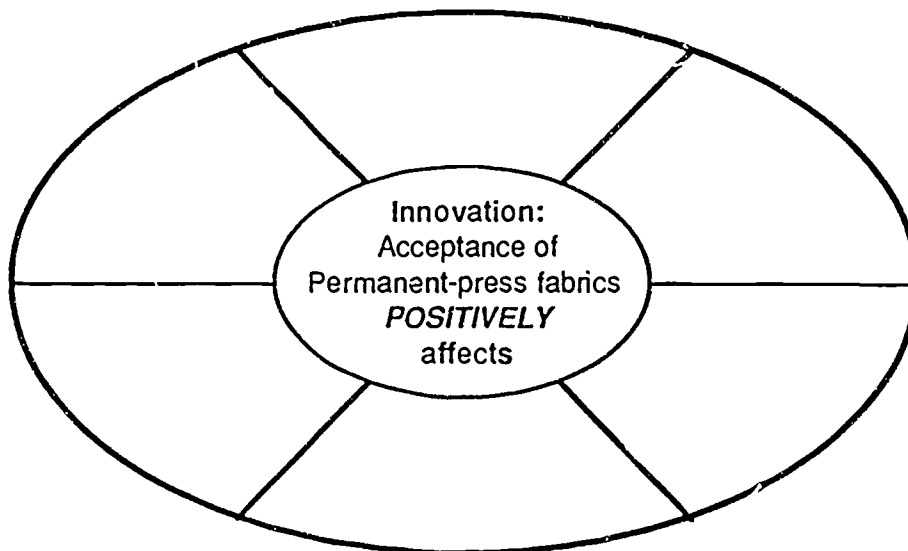
Name \_\_\_\_\_

## ACTIVITY 28

### *Ripple effects in the marketplace: permanent-press fabrics*

#### INSTRUCTIONS

Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of permanent-press fabrics.





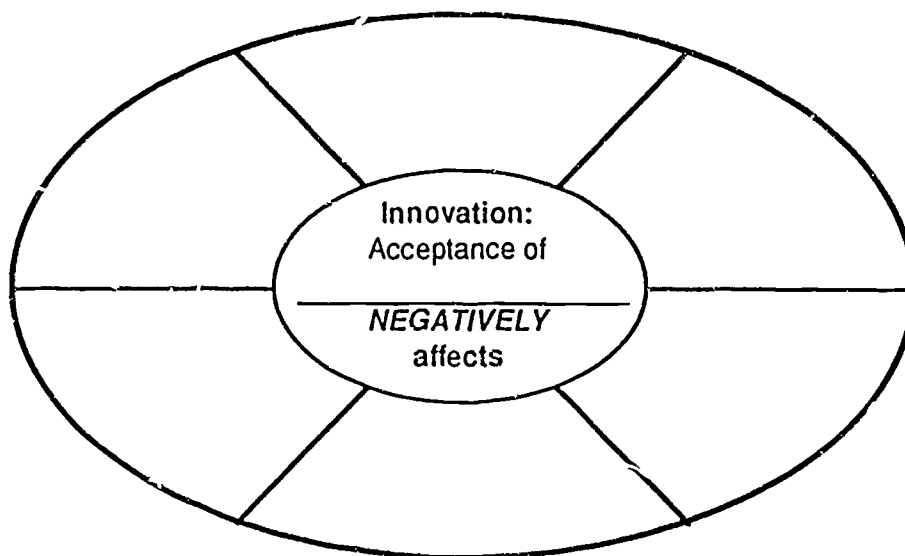
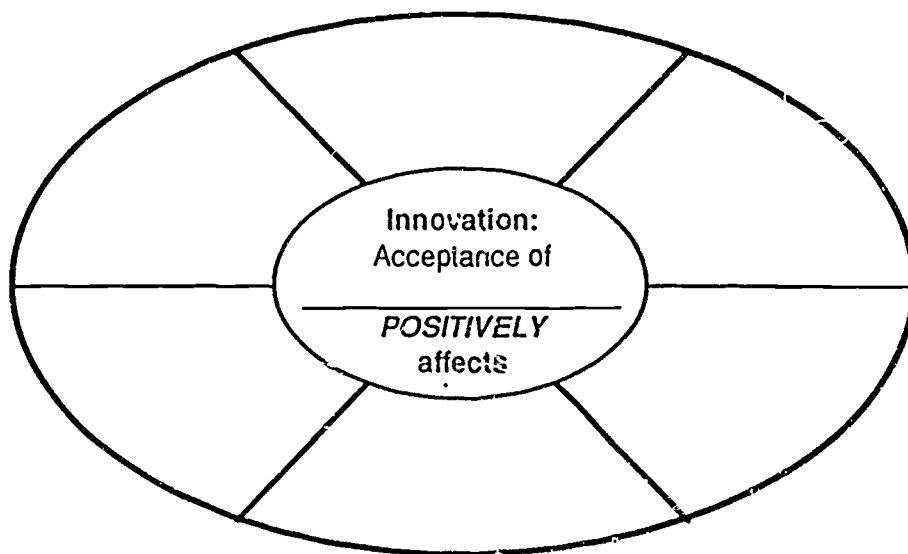
Name \_\_\_\_\_

# ACTIVITY 29

## *Ripple effects of an innovation*

### INSTRUCTIONS

Write the name of an innovation in the blank space provided in the inner segment. Fill in the outer segments of the diagrams below with the names of producers of goods and services who were positively and negatively affected by the introduction of the innovation.



\_\_\_\_\_  
Name

# ACTIVITY 30

## *Comprehension quiz, lesson 8*

### **THE LEAN, MEAN FLYING MACHINE**

Let's suppose the activities of an entrepreneur result in the invention and successful marketing of a compact, inexpensive airplane that takes off without an extensive runway or airfield.

What businesses might be positively affected by this innovation?

Also suppose that this new airplane is as easy to operate as an automobile. What business/industries might be negatively affected by this innovation?

Write your answers in the spaces provided.

**New businesses/industries that might be positively affected:**

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**Businesses/industries that might be negatively affected:**

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Name \_\_\_\_\_

# ACTIVITY 31

## *The demand for "Kookies"*

### PART A

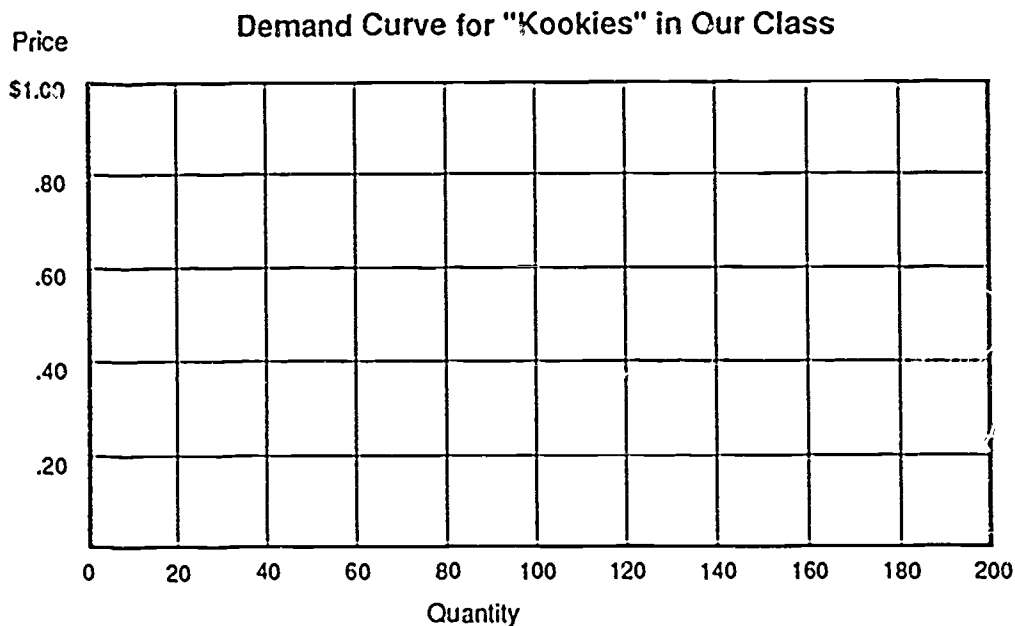
Suppose a bakery close to your school has decided to produce and market large (6 inches in diameter) chocolate chip cookies which they have given the trade name "Kookies." The owners of the firm have not decided what price to charge. They want to know how many they could sell at various prices.

To help them find out the information they want to know, complete the table below.

<u>At this price</u>	<u>I would probably buy this many "Kookies" per week</u>
\$ .20 each	_____
.40 each	_____
.60 each	_____
.80 each	_____
1.00 each	_____

### PART B

Construct a graph to show the total number of "Kookies" students in your class are willing to buy at each price.



From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

Name \_\_\_\_\_

## ACTIVITY 32

*What is happening  
to the demand for canned tuna?*

### PART I

Mary runs the only grocery store in a 12-block area of a large city. Many of her customers are elderly and don't have much income. Mary sells lots of canned tuna fish. It isn't too expensive, and it is a good source of protein. Mary charges 79 cents a can all the time, but she has noticed that her sales have changed from time to time.

*Explain why the demand for tuna fish changed in each of the following situations.*

1. When hamburger went up 20 cents a pound, Mary sold about 50 more cans of tuna fish each day. This probably happened because

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2. Mary sells about 100 more cans of tuna fish a day at the start of a month than at the end of a month. This probably happens because

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3. For a few weeks after there was an article in the newspaper about how healthful tuna fish is, Mary's sales increased 30 cans a day. This probably happened because

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4. There was a truck drivers' strike and food deliveries were interrupted. Mary sold 100 cans more a day. This probably happened because

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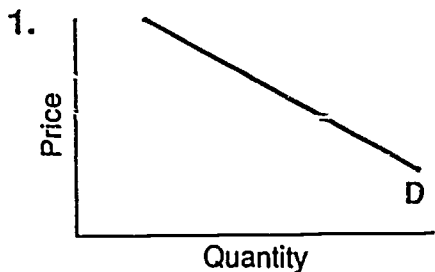
(Continued)

**PART II**

The graphs below represent the demand curve for Mary's canned tuna fish on a regular day.

Draw a new line to show what would happen to the demand curve in each of the situations described on the previous page. Would it shift to the left or right?

In the blank space provided, write the determinant of demand for each situation.



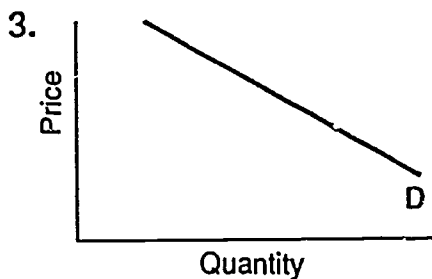
Determinant

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Determinant

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Determinant

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Determinant

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\_\_\_\_\_  
Name

# ACTIVITY 33

## *Factors affecting demand*

Cut out advertisements from newspapers or magazines for two totally unrelated products. Consider the advertisements and then answer each of the following questions.

Be sure to attach the advertisements to your assignment when you hand it in.

1. To which of the four determinants of demand (income, tastes and preferences, the price of substitutes, or expectations of future changes) is each advertisement trying to appeal? Explain how you know this.

Advertisement No. 1 appeals to \_\_\_\_\_. I know this because \_\_\_\_\_

\_\_\_\_\_

Advertisement No. 2 appeals to \_\_\_\_\_. I know this because \_\_\_\_\_

\_\_\_\_\_

2. What would you estimate the price of each product is now?

Product No. 1 \$ \_\_\_\_\_ Product No. 2 \$ \_\_\_\_\_

3. Restate the law of demand in your own words.

\_\_\_\_\_

\_\_\_\_\_

4. If the price of each of these products went up 5%, which one do you believe would suffer the greater loss in sales? Explain why.

I believe product No. \_\_\_\_\_ would have the greater percentage loss in sales because

\_\_\_\_\_

\_\_\_\_\_

5. Describe how firms that sell the product you identified in question No. 4 might try to reduce their sales loss.

\_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

# ACTIVITY 34

## Comprehension quiz, lesson 9

### PART I

Answer the following by placing the letter of the correct definition in the blank in front of each term.

Term	Definition
_____ 1. demand	A. products that may not be exactly the same but which may be put to the same use
_____ 2. determinant of demand	B. a graphic representation of the number of items that will be demanded at various prices
_____ 3. demand curve	C. the willingness and ability to buy something
_____ 4. substitutes	D. a belief in future changes that affects one's willingness to buy products now
_____ 5. expectations	E. people will buy more units of a good at a lower price than at a higher price
_____ 6. law of demand	F. anything, other than price, that affects customers' willingness to buy a product

### PART II

Study the graph to the right and answer the following questions.

7. How many pairs of socks would be sold at a price of \$4?

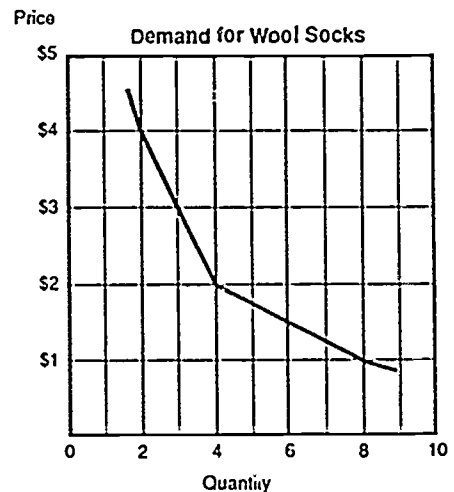
\_\_\_\_\_ pairs

8. If there were a cold spell, would the demand curve for socks move to the left or to the right?

It would move to the \_\_\_\_\_.

Explain how the law of demand is demonstrated by the graph.

\_\_\_\_\_  
\_\_\_\_\_



Name \_\_\_\_\_

## ACTIVITY 35

### *The supply of "Kookies"*

Suppose you own a small bakery near the local high school. In recent months you noticed that your employees have little to do in mid-afternoon before the evening rush. You wonder if baking large cookies (which you would call "Kookies") to sell to students on their way home from school might be a good way to keep your employees busy and to earn more profit.

You have studied how your workers use their time and believe they could bake 100 cookies a day without having to cut back on any other products they make. To produce more than 100 cookies, they would have to reduce the production of other baked goods because your

firm has only so many ovens and workers.

Another possibility would be to pay some workers overtime to stay late to bake cookies.

You conclude that if your sales of cookies grow over 100 a day, you will have to charge progressively higher prices to make up for your increasing costs of production.

The table below shows how many cookies you would be willing to offer for sale at various prices.

Study this information and answer the questions below.

<u>At this price</u>	<u>I would supply this many "Kookies" per week</u>
\$ .20 each	none
.40 each	500
.60 each	700
.80 each	900
1.00 each	1,100

1. Why wouldn't you supply any cookies at 20 cents each?

\_\_\_\_\_

2. Why do you require a higher price to produce more than 100 cookies a day (500 a week)?

\_\_\_\_\_

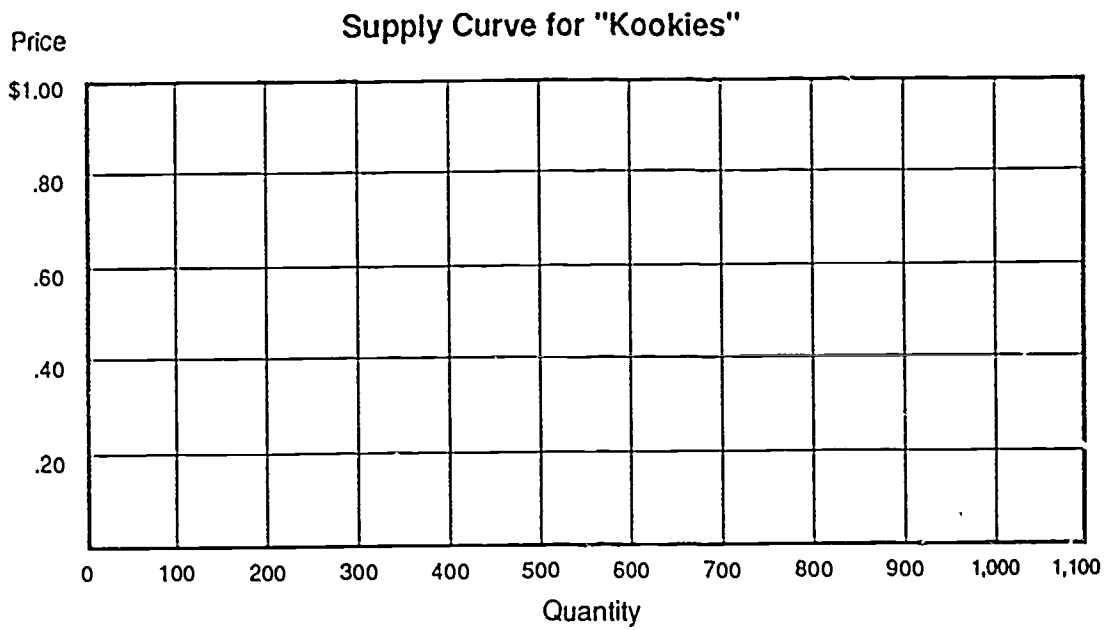
\_\_\_\_\_

\_\_\_\_\_

(Continued)



3. Plot the information from the preceding table on the graph below.



4. Explain how the graph of a supply curve demonstrates the law of supply.

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Name \_\_\_\_\_

## ACTIVITY 36

### *Arnold's fossil farm*

Several years ago Arnold inherited over 1,000 acres of land in Wyoming from his uncle. When he went to look at it, he found it was on the side of a mountain about 50 miles from any town. The soil was loose, rocky, and nothing grew on it except a few weeds. When Arnold climbed up the mountain, he kept slipping and getting dirty. He was really depressed. He didn't think the land was worth anything. While he was climbing, he picked up an interesting looking rock and took it home with him. Later he put the rock on a shelf and didn't think any more about it for many months.

The next winter Arnold invited a friend who was a geologist to visit him. The friend happened to notice Arnold's rock and became very excited. He identified it as a fossil of a brachiopod from the Cambrian period. He said it was one of the best specimens he had ever seen and was certainly worth \$10 to \$20. Arnold thought there might be some value in the land after all.

The following summer Arnold went back to Wyoming and climbed all over his property. He found ten fossils the first day he was there just by looking around the bottom of his land. On the following days he went farther

up the hill and found more specimens. Arnold discovered that he could expect to find about five fossils per acre, but the farther up the mountain he went, the more trouble they were to find. Arnold gathered about a hundred specimens and sold them to a scientific supply firm for \$10 each. The money paid for the cost of his trip (\$500) and left him several hundred dollars. Arnold thought this was the end of his business because he assumed he had found most of the fossils he could without actually digging up his land.

A year later Arnold passed by his land and stopped to look. To his surprise he found that erosion had uncovered more fossils. He realized he would be able to "harvest" fossils from his property every year. He could really run it like a business.

This year Arnold took time off from his job where he earns \$20 an hour and spent five weeks in June and July on his property. He carefully timed himself as he looked for specimens.

He organized the information he gathered on the table below.

<u>Fossils found</u>	<u>Time spent</u>
first 100	20 hours
next 100	30 more hours
next 100	40 more hours
next 100	50 more hours
next 100	60 more hours
<b>Total found = 500</b>	<b>Total hours = 200</b>

(Continued)

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After collecting 500 specimens, Arnold went home to his regular job. He sold them for \$5,000. Arnold's trip cost \$750 (\$500 transportation and \$50 a week for the five weeks), plus his lost salary from his regular job ( $\$20 \times 40 \text{ hours} \times 5 \text{ weeks} = \$4,000$ ).

He wants to figure out how much time he should take off next year to look for fossils.

1. Why did it take Arnold longer and longer to find more fossils?

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2. How does this situation demonstrate the principle of increasing costs of production?

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3. What would you recommend for Arnold? Explain why.

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4. If the scientific supply firm was willing to pay Arnold \$15 each, how would it affect the number of specimens he would supply?

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5. How does this situation demonstrate the law of supply?

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\_\_\_\_\_  
Name

# ACTIVITY 37

## *What is happening to the supply of goods?*

### **PART I**

Mary runs the only grocery store in a 12-block area of a large city. Many of her customers don't have much income, so she finds it difficult to raise her prices without losing sales. She has found over the years that her willingness to supply various items has changed.

Explain why Mary's supply changed in each of the following situations.

1. When the cost of electricity went up, she took out one of her two freezers and offered fewer frozen foods for sale.

\_\_\_\_\_  
\_\_\_\_\_

2. When Mary found she could sell candy to elementary school children who were going to school, she restocked half her cosmetics shelves with candy.

\_\_\_\_\_  
\_\_\_\_\_

3. When Mary found she could rent the store next door for only \$650 a month, she increased the size of her store and her selection of products by one half.

\_\_\_\_\_  
\_\_\_\_\_

4. When Mary heard that a big grocery store was going to move in down the block, she stopped renting the store next door and cut her selection back to what it had been in the past.

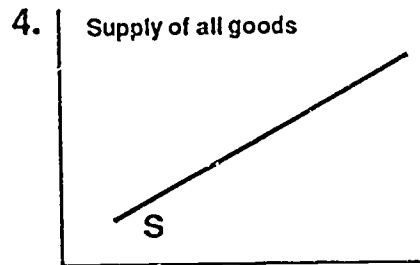
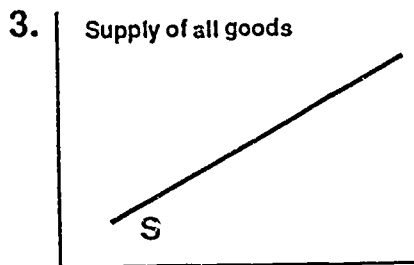
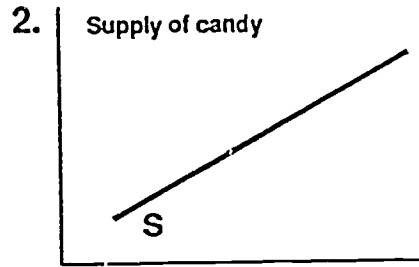
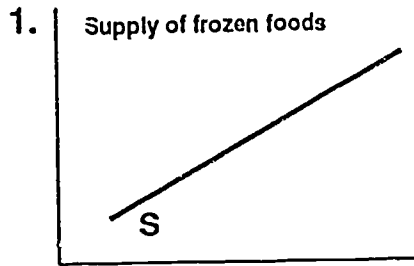
\_\_\_\_\_  
\_\_\_\_\_

(Continued)

**PART II**

Each graph below represents the supply curve for one or more of Mary's products.

Draw a new line to show what happened to the supply curve in each of the cases on the preceding page.



Name \_\_\_\_\_

# ACTIVITY 38

## Comprehension quiz, lesson 10

### PART I

From the list below, select the phrase that correctly completes each sentence and write the phrases in the appropriate blanks.

supply  
right

increasing cost of production  
additional revenue

supply curve  
law of supply

left  
additional cost

1. The \_\_\_\_\_ states that firms will offer more products for sale at higher prices than at lower prices.
2. Firms will supply more products as long as the \_\_\_\_\_ of making another item does not exceed the \_\_\_\_\_ generated by the sale of that item.
3. Firms are often unwilling to supply additional products unless they are able to charge higher prices because of \_\_\_\_\_.
4. The number of items a firm is willing to offer for sale at various prices is called \_\_\_\_\_.
5. A graphic representation of the number of items that will be offered for sale at various prices is called a \_\_\_\_\_.
6. Any event that increases the cost of production will cause the supply curve for that product to shift to the \_\_\_\_\_.

(Continued)

**PART II**

Base your answers to the following on the graph to the right.

7. How many pairs of socks would be supplied at a price of \$4?

\_\_\_\_\_ pairs

8. If there was a sickness that killed many sheep, would the supply curve for wool socks shift to the left or to the right?

It would move to the \_\_\_\_\_ .

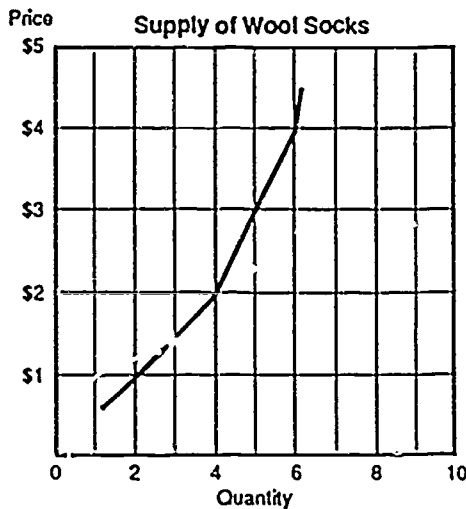
9. Explain how the law of supply is demonstrated by the graph.

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Name \_\_\_\_\_

# ACTIVITY 39

## *Demand for apples and equilibrium*

Assume you want to buy apples for your apple pie bakery. The other student you are working with wants to sell them. The number of apples you are willing to buy and the number he/she is willing to sell depend on the price.

Below you will find a table that lists possible prices for apples in the first column. The next column states the number of apples you would be willing to buy at each

of these prices. The third column is blank. You must fill in this column by asking the other student how many he/she will sell at each price. The final columns ask you whether there would be a surplus or a shortage at each price and how large that surplus or shortage would be.

When you finish the table, answer the questions below.

Demand and Supply for Apples

Price	Quantity demanded	Quantity supplied	Surplus or shortage	Amount
\$10 a bushel	20 bushels	_____	_____	_____
8 a bushel	30 bushels	_____	_____	_____
6 a bushel	40 bushels	_____	_____	_____
4 a bushel	50 bushels	_____	_____	_____
2 a bushel	60 bushels	_____	_____	_____

1. At what price will the number of bushels of apples supplied and demanded be the same?

\_\_\_\_\_

2. How many bushels of apples will be supplied and demanded at this price?

\_\_\_\_\_ bushels

3. Would there be a surplus or a shortage at any higher price?

There would be a \_\_\_\_\_

(Continued)

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4. Would there be a surplus or a shortage at any lower price?

There would be a \_\_\_\_\_

5. Explain why a surplus would tend to force the price down.

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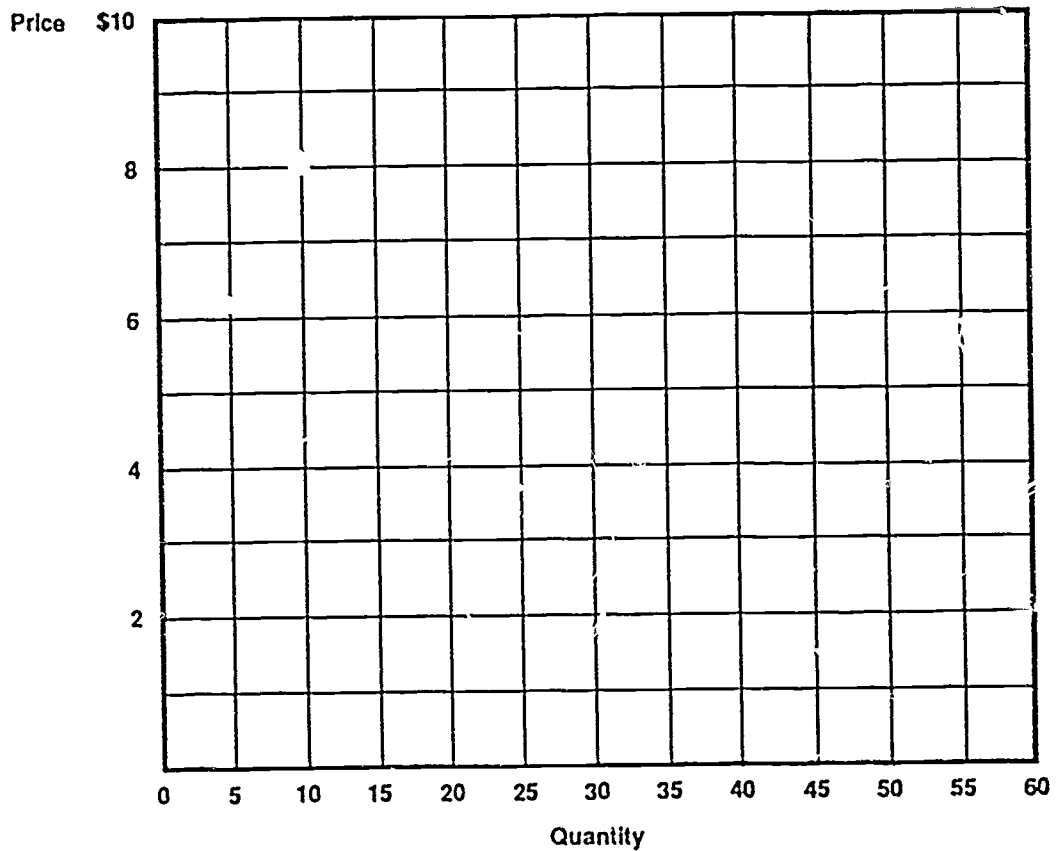
6. Explain why a shortage would tend to force the price up.

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7. Draw demand and supply curves for apples on the graph below using the data on the table you completed on the previous page.

Demand and Supply for Apples



Name \_\_\_\_\_

# ACTIVITY 40

## *Supply of apples and equilibrium*

Assume you want to sell apples you will grow and harvest. The other student you are working with wants to buy them. The number of apples he or she is willing to buy and the number you are willing to sell depend on the price.

Below you will find a table that lists possible prices for apples in the first column. The next column states the number of apples you would be willing to sell at each

of these prices. The third column is blank. You must fill in this column by asking the other student how many he or she will buy at each price. The final columns ask you whether there would be a surplus or a shortage at each price and how large that surplus or shortage would be.

When you finish the table, answer the questions below.

Demand and Supply for Apples

Price	Quantity supplied	Quantity demanded	Surplus or shortage	Amount
\$10 a bushel	60 bushels	_____	_____	_____
8 a bushel	50 bushels	_____	_____	_____
6 a bushel	40 bushels	_____	_____	_____
4 a bushel	30 bushels	_____	_____	_____
2 a bushel	20 bushels	_____	_____	_____

1. At what price will the number of bushels of apples supplied and demanded be the same?

\_\_\_\_\_

2. How many bushels of apples will be supplied and demanded at this price?

\_\_\_\_\_ bushels

3. Would there be a surplus or a shortage at any higher price?

There would be a \_\_\_\_\_

(Continued)

4. Would there be a surplus or a shortage at any lower price?

There would be a \_\_\_\_\_

5. Explain why a surplus would tend to force the price down.

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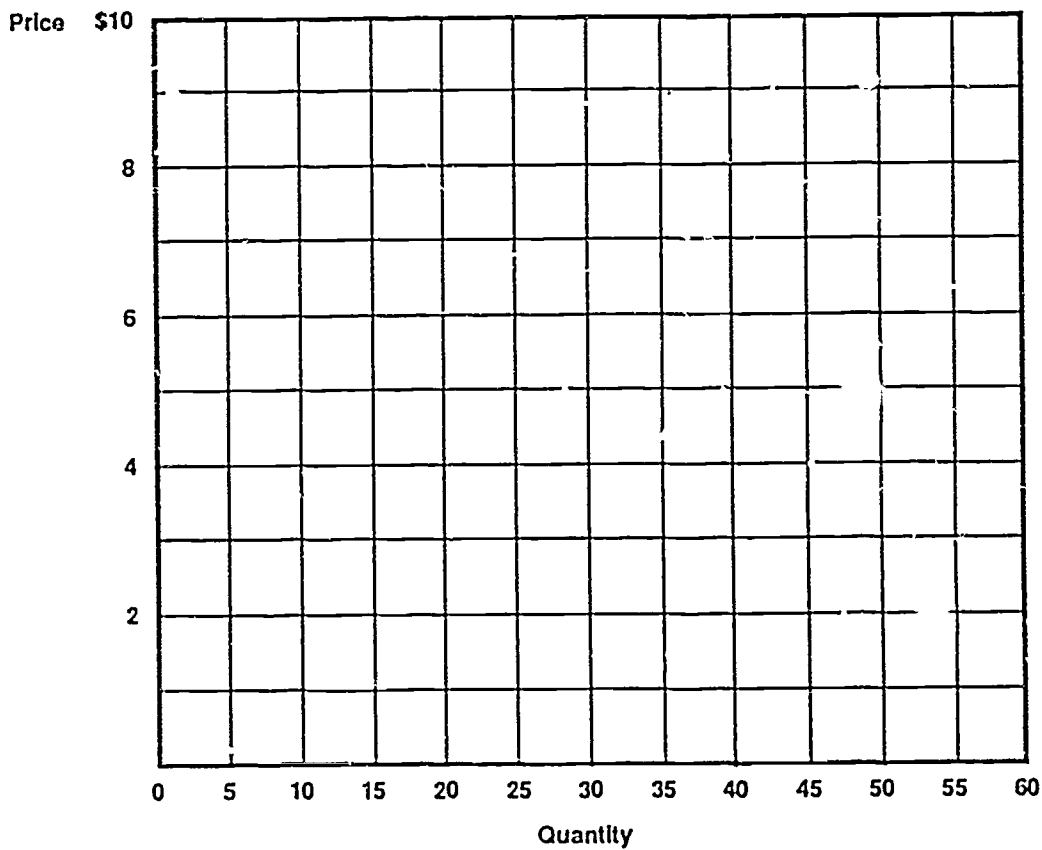
6. Explain why a shortage would tend to force the price up.

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7. Draw demand and supply curves for apples on the graph below using the data on the table you completed on the previous page.

Demand and Supply for Apples



Name \_\_\_\_\_

# ACTIVITY 41

## *The demand and supply for "Kookies"*

A bakery has decided to sell large chocolate chip cookies it calls "Kookies" to local students.

A survey was taken among students who attend a nearby school. The results are provided on the table below. (Your teacher may ask you to use the data you

gathered in your own class if you did Lesson No. 8.) The number of cookies the bakery would be willing to supply at different prices is listed in the table.

Study this information and answer the following questions.

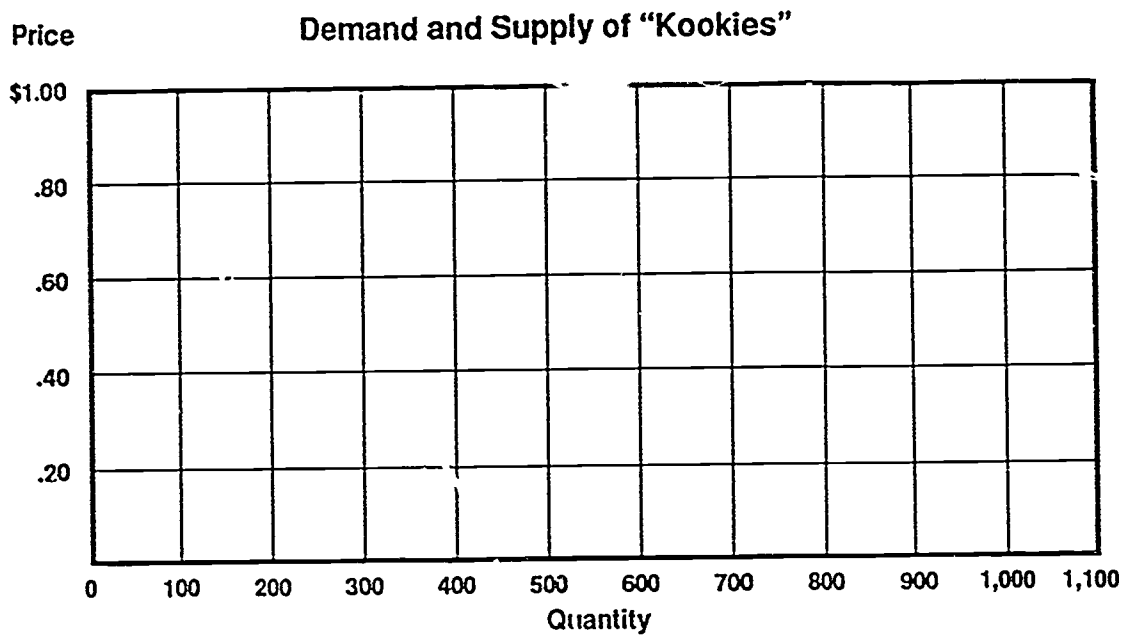
At this price	The quantity demanded would be (use the blank for your class's values)	The quantity supplied would be
\$ .20 each	1,100 _____	none
.40 each	900 _____	500
.60 each	700 _____	700
.80 each	500 _____	900
1.00 each	300 _____	1,100

1. At a price of 80 cents, how many "Kookies" would be demanded? \_\_\_\_\_
2. At a price of 80 cents, how many "Kookies" would be supplied? \_\_\_\_\_
3. Would there be a surplus or a shortage of "Kookies" at a price of 80 cents?  
There would be a \_\_\_\_\_ of "Kookies."
4. How large would the surplus or shortage be? \_\_\_\_\_
5. Would the price tend to go up or go down from 80 cents? \_\_\_\_\_
6. What is the equilibrium price in this example? \_\_\_\_\_

(Continued)

7. What quantity of "Kookies" will be sold at the equilibrium price? \_\_\_\_\_

8. Use the data from the table to draw a graph of the demand and supply of "Kookies."



Name \_\_\_\_\_

# ACTIVITY 42

## *Demand and supply table*

Fill in the grid below by writing the correct term in each box:

“Move left”—“Move right”—or “Stay the same” for demand and supply.

“Increase”—“Stay the same”—or “Decrease” for the equilibrium price.

Event	The demand curve would	The supply curve would	The equilibrium price would
The weekly allowance of students who buy “Kookies” goes up by \$5			
One of the cooks in the bakery quits and the others have more work to do			
Another store that sold snacks to students in the area goes out of business			
The cost of gas to heat the bakery’s ovens goes down 50%			
The head cook in the school cafeteria gets sick and is replaced by a cook who makes awful food			
There is a 25% increase in the cost of flour			

Name \_\_\_\_\_

# ACTIVITY 43

## Comprehension quiz, lesson 11

### PART I

- At a price above the equilibrium price, there will be:
  - a shortage of the product
  - a surplus of the product
  - as many products demanded as supplied
- At the market equilibrium price, we:
  - know the firm is earning a profit
  - know the firm is making a loss
  - don't know if the firm is earning a profit or making a loss
- If there is a shortage of a product, then its current price is:
  - above the equilibrium price
  - below the equilibrium price
  - equal to the equilibrium price
- If many more people want to buy a product, its demand curve will move to the right and its equilibrium price will:
  - go up
  - stay the same
  - go down
- If the cost of making a product increases, its supply curve will move to the left and its equilibrium price will:
  - go up
  - stay the same
  - go down

### PART II

Base your answers to the following on the graph to the right.

6. What is the equilibrium price for wool socks?

\$ \_\_\_\_\_

7. How many pairs of socks will be bought and sold at the equilibrium price?

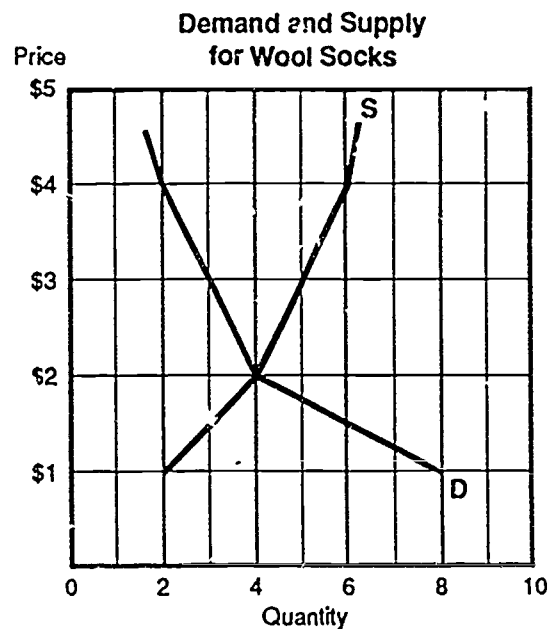
\_\_\_\_\_ pairs of socks

8. At a price of \$4, would there be a surplus or a shortage of wool socks?

There would be a \_\_\_\_\_

9. How large would this surplus or shortage be?

\_\_\_\_\_ pairs of socks



Name \_\_\_\_\_

## ACTIVITY 44

*How big is the profit slice of pie?*

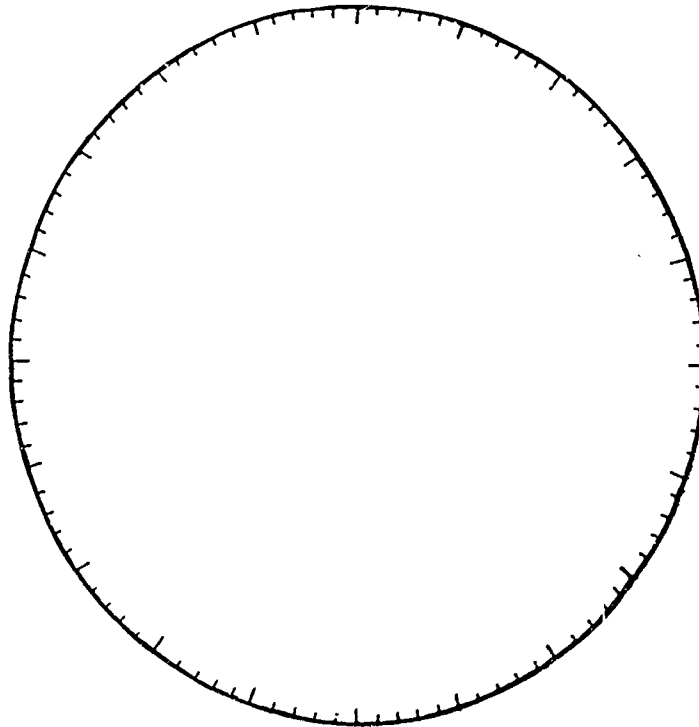
### INSTRUCTIONS

Assume that you are the owner of a successful retail store, and the circle (pie) below represents the total revenue for one year.

Out of the revenue earned, you must pay for the merchandise you sold. You must also pay operating expenses. Of course, you also expect to make a profit.

Divide the circle (pie) to show what portion of the total revenue you think will be profit, what portion will be used to pay for merchandise, and what portion will be needed for operating expenses.

- a. To begin, mark off and label a slice of pie to represent the amount of profit you would expect to earn.
- b. Then mark off and label a slice to represent payment for the merchandise sold.
- c. The slice left represents the amount set aside for operating expenses. Do you think you have set aside enough for all the expenses associated with operating a business?
- d. Make any adjustments in the three portions of the pie that you think are necessary.



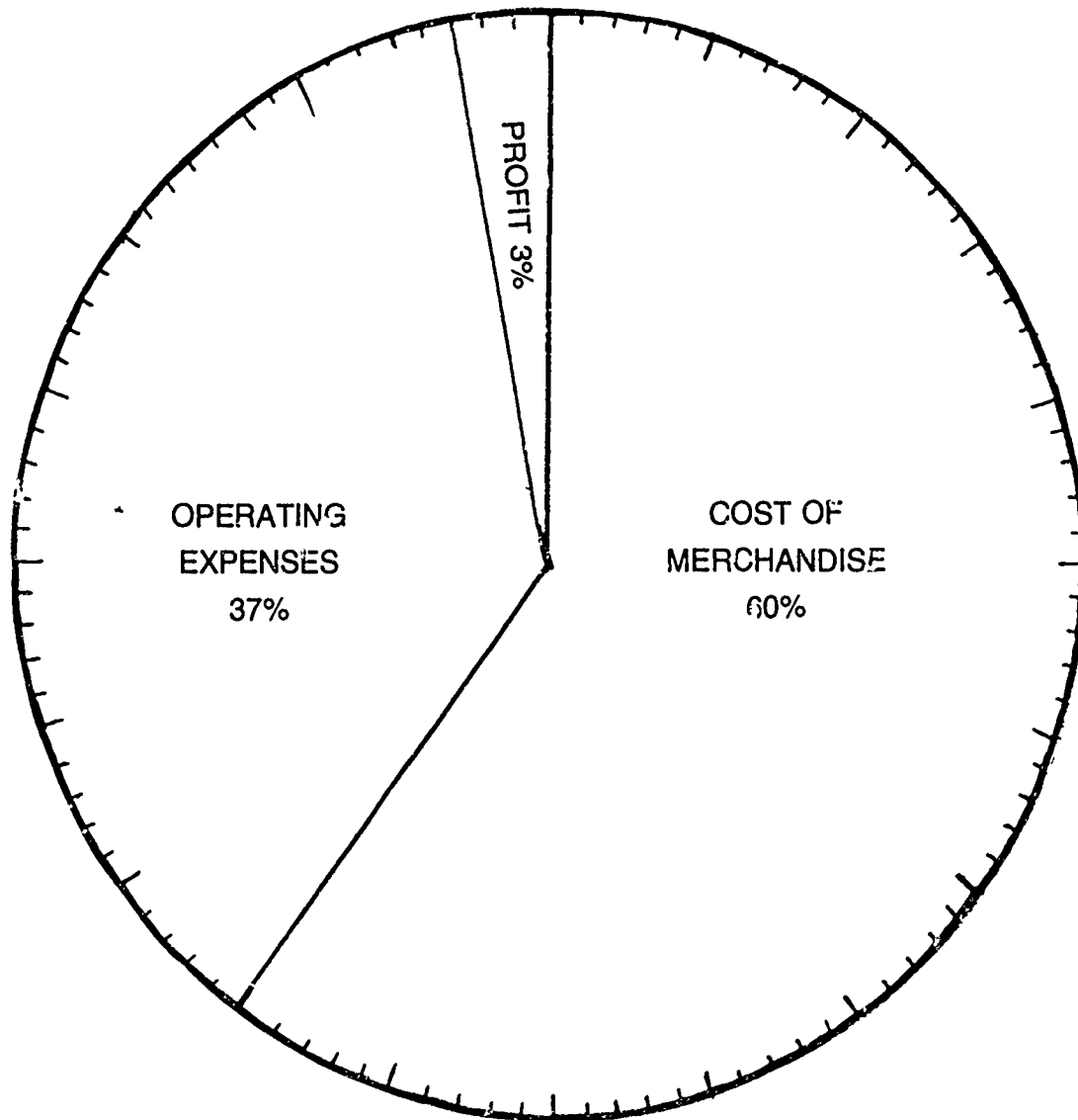


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# ACTIVITY 45

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*How is the pie divided?*



Name \_\_\_\_\_

# ACTIVITY 46

## *Fixed and variable costs*

Sharon has wanted to own her own pottery shop for a long time. Last year she inherited \$30,000 from her uncle. She used the money to go into business. She worked 50 hours every week making pots and running the store.

At the end of the year, she figured out her profit and was very disappointed. She wrote down all the information she gathered on a sheet of paper and tried to decide what she could do to improve her earnings.

Study the data and answer the questions below.

Total revenue (5,000 pots × \$10 each).....	\$50,000	
Investment in equipment.....	15,000	_____
Investment in remodeling rented store .....	5,000	_____
Cost of clay and other materials used .....	5,000	_____
Cost of electricity and utilities.....	3,200	_____
Wages and benefits for one part-time helper .....	6,400	_____
Rent .....	4,800	_____
Insurance.....	1,200	_____
Advertising.....	1,800	_____
Bookkeeping service .....	3,600	_____
Other costs .....	2,000	_____
Total Expenditures.....	52,000	

1. Identify Sharon's costs as fixed, variable, or mixed by writing the correct word in the blank after each cost line.
  2. How do you think Sharon should account for the value of her own time and labor?
- \_\_\_\_\_

(Continued)

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3. How much do you think Sharon could have earned if she had deposited her \$30,000 in a bank? \_\_\_\_\_

4. Sharon looked at what she spent and what she took in and figured she had lost \$2,000. Why was she wrong?

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5. If Sharon doesn't think her business is going to get any better, should she stay in business? Explain why, or why not.

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Name \_\_\_\_\_

# ACTIVITY 47

## *Profit projection form*

### PART I

Suppose your club wants to earn money by selling quarter-pound hamburgers at local basketball games.

You believe you could sell 3,000 hamburgers during the 12-game season at a price of \$1.50 each. You must rent a booth at the gymnasium for \$50 per night. Labor

will be supplied free by members of the club. You need to predict your costs and profits. Complete the form below.

Check the prices at your local grocery stores for the food items included on the list.

Rent for a booth for 12 nights .....	\$ _____
Cost of ground beef for 3,000 hamburgers .....	_____
Cost of 3,000 hamburger buns .....	\$ _____
Ketchup (one 32 oz. bottle per 50 hamburgers) .....	\$ _____
Mustard (one 16 oz. bottle per 100 hamburgers) .....	\$ _____
Pickles (one 32 oz. bottle per 50 hamburgers) .....	\$ _____
Onions (one pound per 50 hamburgers) .....	\$ _____
Paper napkins (one per hamburger) .....	\$ _____
Total cost of producing 3,000 hamburgers .....	\$ _____
Total revenue for selling 3,000 hamburgers .....	\$ _____
Profit or loss .....	\$ _____

### PART II

Based on your projections for profit (or loss), would you recommend that your club sell hamburgers to earn money or would you recommend that they undertake some other activity? Why or why not?

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Name \_\_\_\_\_

# ACTIVITY 48

## *Deciding on a club enterprise*

1. Suppose your club wants to earn money by selling quarter-pound hamburgers at local basketball games. You believe you could sell 3,000 hamburgers during the 12-game season at a price of \$1.50 each. You must rent a booth at the gymnasium for \$50 per night. Labor will be supplied free by members of the club. You need to predict your costs and profits. Complete the form below.

Check the prices at your local grocery stores for the food items included on the list.

Rent for a booth for 12 nights .....	\$ _____	( )
Cost of ground beef for 3,000 hamburgers .....	\$ _____	( )
Cost of 3,000 hamburger buns .....	\$ _____	( )
Ketchup (one 32 oz. bottle per 50 hamburgers) .....	\$ _____	( )
Mustard (one 16 oz. bottle per 100 hamburgers) .....	\$ _____	( )
Pickles (one 32 oz. bottle per 50 hamburgers) .....	\$ _____	( )
Onions (one pound per 50 hamburgers) .....	\$ _____	( )
Paper napkins (one per hamburger) .....	\$ _____	( )
Total cost of producing 3,000 hamburgers .....	\$ _____	
Total revenue for selling 3,000 hamburgers .....	\$ _____	
Profit or loss .....	\$ _____	

2. Identify each of the costs above as fixed or variable by placing the letter "F" or "V" in the parentheses at the end of each cost line.
3. If you had to pay workers a total salary of \$100 a night instead of having volunteers from your club, what would happen to your profits? Should you continue to sell hamburgers in this case? Explain your answer.

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Name \_\_\_\_\_

# ACTIVITY 49

## Comprehension quiz, lesson 12

### PART I

Complete the following by circling the letter of the best answer.

1. The correct formula for finding a firm's profit is:
  - a. profit = total revenue - total cost
  - b. profit = (price × number sold) - cost per item
  - c. profit = (cost per item - price) × number sold
2. Many entrepreneurs overestimate their profits because they:
  - a. don't keep records of their sales
  - b. don't consider the value of their time
  - c. don't try to control their labor costs
3. Resources tend to flow to firms that are efficient and profitable because:
  - a. they have a greater need for those resources
  - b. they use those resources more quickly
  - c. they can afford to pay for those resources
4. If the owners of a firm have no expectation of ever earning a profit, they should:
  - a. go out of business and put their money in a bank
  - b. try to merge their business with another larger firm
  - c. lower their prices so they can sell more items

### PART II

Joe makes deliveries in the evening and on Saturdays for a local drug store. By carrying the items, he earned \$80 each week. He saved his money until he had \$4,000. Joe decided to buy a used car with his money. By driving the car, he is able to deliver more items and now earns \$120 a week. Joe believes the car was a wise investment. Write a brief essay that explains why Joe probably is wrong.

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# **ACTIVITY 50**

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## *Types of business organizations*

### Sole proprietorship

A form of business organization that is owned and managed by one individual who assumes all risk of loss and receives all profits.

### Partnership

A form of business organization that is owned by two or more individuals who assume all risk of loss and receive all profit.

### Corporation

A form of business organization that is created by law, functions as a separate legal entity, and is owned by two or more individuals called stockholders. Stockholders are at risk only for the amount of their financial investment.

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# ACTIVITY 51

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## *Advantages and disadvantages of types of ownership*

Forms of ownership	Advantages	Disadvantages
Sole proprietorship	<ol style="list-style-type: none"><li>1. Low start-up costs</li><li>2. Greatest freedom</li><li>3. All profits to owner</li><li>4. Owner in direct control</li></ol>	<ol style="list-style-type: none"><li>1. Unlimited liability</li><li>2. Lack of continuity</li><li>3. Difficulty in raising capital</li></ol>
Partnership	<ol style="list-style-type: none"><li>1. Easy to form</li><li>2. Low start-up costs</li><li>3. Divided authority</li></ol>	<ol style="list-style-type: none"><li>1. Unlimited liability</li><li>2. Lack of continuity</li><li>3. Divided authority</li><li>4. Difficulty in finding suitable partner</li></ol>
Corporation	<ol style="list-style-type: none"><li>1. Limited liability</li><li>2. Specialized management</li><li>3. Ease of raising capital</li></ol>	<ol style="list-style-type: none"><li>1. Close regulation</li><li>2. Most expensive to organize</li><li>3. Extensive record-keeping</li></ol>
Franchise	<ol style="list-style-type: none"><li>1. Smaller than usual capital investment</li><li>2. Prior public acceptance of product</li><li>3. Better than average profit margins</li><li>4. Management assistance</li></ol>	<ol style="list-style-type: none"><li>1. Possible high franchisor fee</li><li>2. Some loss of independence</li><li>3. Possible difficulties in cancelling contract</li></ol>



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# ACTIVITY 52

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## *Entrepreneurship Interview guide*

1. Name of entrepreneur
2. Name of entrepreneur's business
3. Type of business organization
4. List products of business (goods and/or services)
5. Number of employees
6. List benefits of business to society
7. Chart growth of business since its inception
8. Challenges in operating the business

\_\_\_\_\_  
Name

# ACTIVITY 53

## *What's the rate of interest?*

### INSTRUCTIONS

Please visit a local bank to determine the interest rate that they provide savers and charge borrowers on various types of accounts. For each option below, give a short description of the savings plan or loan in addition to the rate.

### Savings Plans

#### I. Savings account

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### II. Money market account

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### III. Certificate of deposit

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### IV. Other \_\_\_\_\_

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Continued)

Types of Loans

I. Personal loan

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

II. Commercial loan

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

III. Car loan

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

IV. Mortgage loan

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

V. Other \_\_\_\_\_

Rate \_\_\_\_\_

Description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name \_\_\_\_\_

# ACTIVITY 54

## *Interest rates and expected returns*

### INSTRUCTIONS

Write the current prime interest rate in the appropriate space in the fourth paragraph.

Calculate the total interest rate and write this number in the appropriate space in the fourth paragraph.

Ted and Mary opened a florist shop about two years ago. Their business has been quite successful, and they are thinking about expanding. They would like to move out of their rented store into a larger building of their own. They need a delivery truck and a new cooler so they can keep more flowers for their growing sales.

Finally, they would like to replace their old mechanical cash register with a new electronic one that would help keep inventory, tax records, and other accounting data for the business.

Ted and Mary have assets worth \$140,000, which they could borrow against (their home and a rental property),

and \$20,000 in cash. Their firm earned \$40,000 after taxes on total sales of \$320,000 in the past year, most of which they used to support themselves.

They went to several banks that all told them the same thing. They could borrow up to \$150,000 at the prime interest rate (currently \_\_\_\_\_ %) plus an additional 2% for a total interest rate of \_\_\_\_\_ %.

Mary has studied each possible investment and has estimated the return they could be expected to generate.

She has listed her findings on the table below.

Study the data provided in the table below and answer the questions that follow.

<u>Investment</u>	<u>Cost</u>	<u>Expected return</u>
New building	\$110,000	15%
Delivery truck	16,000	17%
New cooler	8,000	13%
New cash register and inventory system	6,000	11%

1. Which of these investments should Ted and Mary make at the interest rate they have to pay? (Assume her predictions are correct.)

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(Continued)

2. Explain why firms should always consider expected returns and interest rates before they borrow money to make investments.

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3. Do you believe Ted and Mary should spend all of the \$20,000 they have saved before they borrow from a bank? Explain your answer.

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4. If the prime interest rate increased by 3% after Ted and Mary borrow \$150,000 from the bank, how much more would they be forced to pay in interest this year if they had a loan that varied with the increase or decrease of the market interest rates? How important do you believe this might be to the financial success of their business? Explain your answer.

Assuming the new and higher rate remains in effect for a year, it will cost \$ \_\_\_\_\_ more in interest this year. (Amount borrowed  $\times$  .03 = answer)

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Name \_\_\_\_\_

# ACTIVITY 55

## Comprehension quiz, lesson 14

### PART I

Answer the following by circling the letter of the best answer.

1. The rate of interest that a borrower must pay depends on all of the following EXCEPT:
  - a. the risk of the loan not being paid back
  - b. the value of collateral the borrower owns
  - c. the price of the products the borrower sells
2. A firm should borrow money to pay for a new machine if its expected rate of return is:
  - a. greater than the interest rate
  - b. equal to the interest rate
  - c. less than the interest rate
3. Banks earn money by paying depositors:
  - a. a lower interest rate than they charge borrowers
  - b. the same interest rate that they charge borrowers
  - c. a higher interest rate than they charge borrowers
4. Lenders demand interest to compensate themselves for:
  - a. the risk they are taking
  - b. giving up the use of their money at the present time
  - c. both a and b
5. If the economy is doing well and most businesses expect their profits to grow, we should expect the amount of money borrowed to:
  - a. decrease
  - b. increase
  - c. stay the same

### PART II

A business named amalgamated Applesauce, Inc. has three investments it is considering borrowing money to finance. At the present time it must pay 15% for any money it borrows. However, if the prime interest rate goes up or down in the future, the rate the company must pay will also rise or fall. The investments the company is considering are:

- a steam cooker which should return 12% a year
- a canning machine which should return 18% a year
- a machine that puts cans in boxes which should return 15% a year

6. Decide if the firm *should* or *should not* borrow to make the investment indicated. Underline the action you think the firm should take and explain your decision.

- a. The firm (should/should not) buy the steam cooker because

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(Continued)

b. The firm (should/should not) buy the canning machine because

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c. The firm (should/should not) buy the boxing machine because

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7. Explain why it is important for firms who borrow money to be aware of trends in interest rates.

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Name \_\_\_\_\_

## ACTIVITY 56

### *The lawn and garden doctors*

When Joe graduated from high school, he couldn't find a job he wanted so he went into business for himself cutting grass. He bought a used truck, a used lawn tractor, and a number of hand tools. Everything he needed cost just over \$8,000. Joe went door to door asking people if they would like him to cut their grass. Joe discovered there were at least eight other lawn services doing business in town. Most people who wanted to have their grass cut already had a different firm doing it.

At first Joe tried to charge high prices because he thought this would allow him to pay his bills and earn a good profit. Many people he called on told him his competitors' prices were much lower. Joe decided to lower his prices and soon he had quite a few customers. In order to cut all the lawns he had agreed to do, Joe had to work quickly and didn't do a good job. Some of his customers told him not to come back because his work wasn't as good as they expected. Finally Joe ended up charging the same price as the other lawn services

and did the same quality work. Joe wasn't happy because he wasn't making much money.

Joe decided he had to do something to improve his profits. He contacted a friend named Frank, who ran a business caring for ornamental plants. When Joe went to a customer's home to cut the grass, Frank came along and examined the owner's plants. When he was ready to leave, Joe gave the owner a free list Frank had made of plant problems along with suggestions for how the plants could be made healthy.

Most of his customers were happy to have the list. Some of them hired Frank to take care of their plants. Joe and Frank became partners and found they could charge higher prices because their lawn service had more to offer than that of their competition. Word of Joe's new service spread and he soon had many new customers. Joe and Frank changed the name of the business to "*The Lawn & Garden Doctors*" and advertised their special service in local newspapers. They now own the most successful lawn service in town.

1. What happened to Joe's business when he charged more than other firms?

\_\_\_\_\_

2. What happened to Joe's business when he did low-quality work?

\_\_\_\_\_

3. Explain how you know the business Joe started was in a competitive market.

\_\_\_\_\_

4. Why do firms in competitive markets often have low profit margins?

\_\_\_\_\_

5. What did Joe and Frank do that allowed them to charge higher prices and still have more customers?

\_\_\_\_\_

6. Explain why their new business is an example of monopolistic competition.

\_\_\_\_\_

From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.



Name \_\_\_\_\_

# ACTIVITY 57

## *The market for pain relievers*

Most products sold as pain relievers contain one or more of four basic ingredients. These are:

- aspirin (acetylsalicylic acid)
- acetaminophen
- ibuprofen
- caffeine

Go to a local store and survey the pain relievers offered for sale. Complete a form for each product. When you have finished, identify specific advertisements you have seen or heard for each product.

Consider how the manufacturer is trying to distinguish its product from other similar products.

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

Product's name \_\_\_\_\_ Price per 100 \_\_\_\_\_

Active ingredients \_\_\_\_\_

Is this product advertised? \_\_\_\_\_ If so, how? \_\_\_\_\_

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Name \_\_\_\_\_

# ACTIVITY 58

## *Pizzas*

In most areas there are many businesses that offer pizza for sale.

Identify three specific pizza restaurants in your neighborhood. Find the following information for each store and answer the questions below.

When you visit the stores, try to look at the quality of their pizza.

Store No. 1:

Price of 12-inch pepperoni pizza:

\$ \_\_\_\_\_

Price of each additional topping:

\$ \_\_\_\_\_

This store tries to differentiate its pizza from competing stores by:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Store No. 2:

Price of 12-inch pepperoni pizza:

\$ \_\_\_\_\_

Price of each additional topping:

\$ \_\_\_\_\_

This store tries to differentiate its pizza from competing stores by:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Store No. 3:

Price of 12-inch pepperoni pizza:

\$ \_\_\_\_\_

Price of each additional topping:

\$ \_\_\_\_\_

This store tries to differentiate its pizza from competing stores by:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1. How much difference is there in the prices the stores charge for their pizza?  
\_\_\_\_\_
2. Describe any differences in the quality of the pizzas.  
\_\_\_\_\_  
\_\_\_\_\_
3. Describe the degree of success you believe the firms have had in distinguishing their products from each other.  
\_\_\_\_\_  
\_\_\_\_\_
4. Describe what you would do to try to improve your profit margin if you owned one of these firms.  
\_\_\_\_\_  
\_\_\_\_\_

From *Master Curriculum Guide, Economics and Entrepreneurship, Teaching Strategies* © Joint Council on Economic Education, New York, NY.

Name \_\_\_\_\_

# ACTIVITY 59

## *Comprehension quiz, lesson 15*

### **PART I**

Read the statements below.

Place a "T" in front of each of the statements you think is true and ignore the space below.

Place an "F" in front of each of the statements you think is false; then write the statement correctly in the space provided.

\_\_\_\_\_ 1. Products offered for sale by firms that sell in the same competitive markets are often quite different.

\_\_\_\_\_

\_\_\_\_\_ 2. Competitive firms are often called "price takers" because their customers are forced to "take" whatever price they charge.

\_\_\_\_\_

\_\_\_\_\_ 3. Firms that sell in the same competitive market all charge about the same price.

\_\_\_\_\_

\_\_\_\_\_ 4. Competitive firms often try to achieve product differentiation.

\_\_\_\_\_

\_\_\_\_\_ 5. Firms in monopolistic competition are more likely to earn good profits than competitive firms because their products are more important.

\_\_\_\_\_

\_\_\_\_\_

(Continued)

**PART II**

6. Explain two reasons why most single proprietorships do business in competitive markets.

- a. \_\_\_\_\_  
\_\_\_\_\_
- b. \_\_\_\_\_  
\_\_\_\_\_

7. Describe one specific example you know of in which a firm has tried to distinguish its products from others that are really much the same.

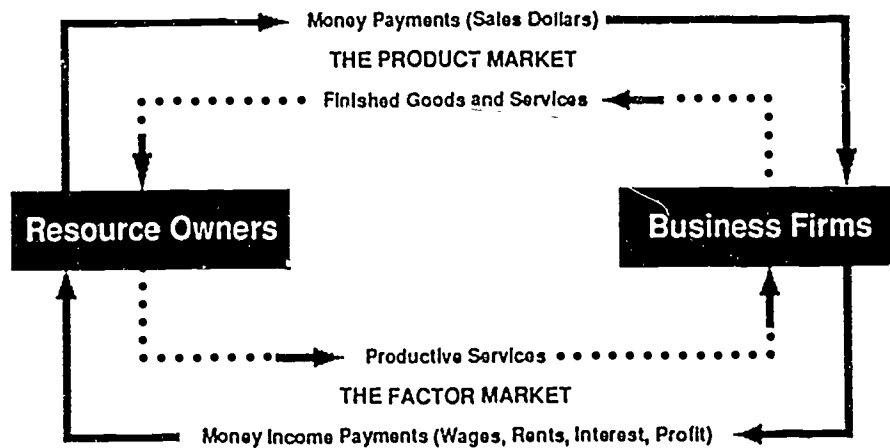
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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# ACTIVITY 60

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## *Circular flow model\**



\*Source. *A Framework for Teaching the Basic Concepts*, © Joint Council on Economic Education, New York, NY., p.23.

Name \_\_\_\_\_

# ACTIVITY 61

## *The handprint business*

Your teacher has drawn four 3-foot-square boxes on the board. Some of your classmates are going into the "handprint" business.

Your teacher will pay \$.50 (pretend) for each traced handprint that is of reasonable quality and does not overlap any other handprint.

In the first box, one student will have one minute to trace as many of his or her handprints as possible. The student is paid a wage of \$5 (pretend). When the minute is up, add the number of prints made and see how much money was taken in, compared to the cost of the worker, and how much was earned in profit.

Repeat the process in each of the next three boxes, adding one more student/worker for each box. Remember each added worker must be paid the \$5 wage. Complete the table below to help you answer the following questions.

When there were this many workers	the number of prints made was	they were worth	the worker(s) were paid	the amount of money earned was
1	_____	_____	_____	_____
2	_____	_____	_____	_____
3	_____	_____	_____	_____
4	_____	_____	_____	_____

1. What happened to the number of additional prints produced as extra workers were hired?

\_\_\_\_\_

2. What happened to the value of added workers?

\_\_\_\_\_

3. Why did this happen?

\_\_\_\_\_

\_\_\_\_\_

Name \_\_\_\_\_

# ACTIVITY 62

## *Sharon's firewood*

Sharon is an elderly woman who owns 40 acres of woodland in rural Iowa. Sharon is too old to do much work herself. Two years ago a tornado blew down most of the trees on her land. Sharon was upset but thought there was little she could do about it. A few weeks ago, one of Sharon's friends suggested she hire some local high school students to cut the trees up and sell them for firewood. The man said she could probably get \$45 for each cord of wood, and most of the local farmers would be willing to pick it up from her home.

Sharon decided to try the idea. She hired her neighbor's 17-year-old son Tim. Tim agreed to pay him \$5 an hour to cut wood for eight hours on Saturday. He used a 6-foot-long cross-cut saw she owned and a hand axe. Working all day, he managed to cut one cord of wood, which Sharon sold for \$45. Sharon paid Tim \$40, which left her \$5 in profit. She decided to try it again. This time Sharon asked Tim to bring one of his friends to help. To

her surprise, Tim and his friend were able to cut four cords of wood working together. They explained that the saw was really too big for one person, but the two of them together could just "whip" right through those logs. Sharon was thrilled. She paid the boys a total of \$80 and sold the wood for \$180, earning \$100. Sharon told the boys to come back the next time and bring another friend.

The following Saturday, the three boys cut six cords of wood. Sharon increased her employment one more time to four boys but discovered they cut six cords, just the same as the three boys had cut the week before. She became angry at them and accused them of being lazy. They denied it and said there really wasn't much for the fourth boy to do while two boys used the saw and one the axe. She decided to keep on with her business but to employ only three boys.

Consider the information above and answer the following questions.

1. Complete the following table.

When Sharon had this many workers	they cut this many cords	she paid them this much	she sold the wood for	and earned
1	_____	_____	_____	_____
2	_____	_____	_____	_____
3	_____	_____	_____	_____
4	_____	_____	_____	_____

2. How does this situation demonstrate the principle of diminishing marginal productivity?

\_\_\_\_\_

\_\_\_\_\_

(Continued)

3. Why couldn't four boys cut any more wood than the three?

\_\_\_\_\_

4. What might Sharon have done to increase the value of the fourth boy?

\_\_\_\_\_

\_\_\_\_\_

5. If Sharon found she could sell only four cords of wood a week, how many boys should she hire? \_\_\_\_\_

6. How does this example demonstrate the fact that the demand for labor is a derived demand?

\_\_\_\_\_

\_\_\_\_\_

7. Identify an example of each of the four factors of production in this story.

Land \_\_\_\_\_

Labor \_\_\_\_\_

Capital \_\_\_\_\_

Entrepreneurship \_\_\_\_\_



Name \_\_\_\_\_

# ACTIVITY 63

## *Comprehension quiz, lesson 16*

### **PART I**

Answer the following by placing the letter of the correct definition in the blank in front of each term.

<b>Term</b>	<b>Definition</b>
_____ 1. derived demand	A. the price a firm charges for its products times the number sold
_____ 2. diminishing marginal productivity	B. things used to produce other goods and services
_____ 3. factors of production	C. a willingness to purchase a factor of production that depends on a firm's ability to sell its product
_____ 4. total revenue	D. the difference between the amount a firm takes in when it sells its product and the amount it spends to make the product
_____ 5. total cost	E. as more workers are hired, a point is reached where each additional worker results in ever smaller amounts of additional production
_____ 6. profit margin	F. the amount spent by a firm to be able to offer goods for sale

### **PART II**

Read the story below and answer the following questions.

The Apex Golf Ball Co. has had a good year. It has been able to sell as many balls for \$1 each as it could manufacture.

To make golf balls, the firm must pay for labor plus \$.40 per ball for other expenses. At the start of the year, the company employed 10 workers who were paid \$60 a day including all fringe benefits. During the year more workers were hired, one at a time, until there were 15 workers. The company didn't buy any more machines to make balls.

The owners gathered data about what happened and organized it in the table below. They tried to analyze the information but aren't sure what it means. They have asked you to study their data and answer the questions that follow.

(Continued)

### Apex Golf Balls Financial Data

Workers	Balls per day	Sales per day	Other costs	Total wages	Total cost	Total profit
10	4,000	\$ 4,000	\$ 1,600	\$ 600	\$ 2,200	\$ 1,800
11	4,350	4,350	1,740	660	2,400	_____
12	4,650	4,650	1,860	720	2,580	_____
13	4,800	4,800	1,920	780	2,700	_____
14	4,900	4,900	1,960	840	2,800	_____
15	4,950	4,950	1,980	900	2,880	_____

7. Fill in the total profit column by subtracting the amount in each total cost column from the corresponding amount in the sales per day column. The first one has been done as an example.

#### OWNER QUESTIONS

8. Why does the number of additional products produced keep going down as we hire more workers?

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9. How many workers should have been hired?

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10. What is the most profit that could be earned in a day? \_\_\_\_\_

11. We expect the cost of our raw materials to go up to \$.50 per ball. What should we do to protect our profit margin?

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\_\_\_\_\_  
Name

## **ACTIVITY 64**

### *Effects of government on the entrepreneurial enterprise*

#### **INSTRUCTIONS**

Imagine that the following statements are headlines of articles. Each of them relates to governmental intervention in the marketplace, especially for the small business owner. For each headline, indicate the following:

- a. Why the government has intervened
- b. What effect the intervention has on the owners of small businesses who are affected by the action

1. Restaurants closed by public health inspector because of cleanliness violations

Reasoning for intervention \_\_\_\_\_  
\_\_\_\_\_

Effects on small businesses \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Government program provides free advice to entrepreneurs

Reasoning for intervention \_\_\_\_\_  
\_\_\_\_\_

Effects on small businesses \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Minimum wage increased—affects many area small businesses

Reasoning for intervention \_\_\_\_\_

Effects on small businesses \_\_\_\_\_

4. Inexpensive courses in small business management funded by the government

Reasoning for intervention \_\_\_\_\_

Effects on small businesses \_\_\_\_\_

5. Area firms install new equipment to make work areas safer

Reasoning for intervention \_\_\_\_\_

Effects on small businesses \_\_\_\_\_

6. Area firm fined by government for using misleading advertising

Reasoning for intervention \_\_\_\_\_

Effects on small businesses \_\_\_\_\_

(Continued)

7. Based on the previous instances of government intervention, complete the following statement:

Government affects small businesses in a number of ways. Some activities, such as \_\_\_\_\_  
\_\_\_\_\_ encourage small business development. If these activities  
are successful, the direct costs of these activities to the firm are less than the increased profitability that results.  
In other instances, government contributes to the cost of doing business. Examples include \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Generally, these forms of intervention are meant to protect or aid a particular group who works for or buys goods and services from small businesses.

8. Many entrepreneurs believe there are too many regulations aimed at small business. They believe we should have more of a laissez-faire economy. Why do you think this belief is held by many entrepreneurs?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name \_\_\_\_\_

# ACTIVITY 65

## *Batesville*

### INSTRUCTIONS

Read the story and answer the questions below.

Batesville is a rural town in the Midwest with a high rate of unemployment. The only industry in town, a chair factory, closed down four years ago. Since then many of the people who lived in Batesville have moved away. Nearly everyone feels poor and depressed.

Last week some industrialists from Chicago came to Batesville to announce that they wanted to manufacture fertilizer in the building the chair business once owned. They said rebuilding the plant would require an investment of over \$20,000,000 and employ 120 people. When the factory finally goes into production, it would create 45 full-time jobs and put about \$1,300,000 into the local economy every year.

At first almost everyone was happy with the pro-

posal. Some even suggested to the town leaders that reduced property taxes should be given to the firm for the first 16 years to make sure that it moves to Batesville. Others were a bit more skeptical. They were concerned about the effect that fertilizer production would have on the quality of their air and water. Residents with homes located close to the former chair factory were concerned about their property values if the fertilizer firm moved in.

A town meeting was called to discuss the matter. The various points were presented.

Please clarify various viewpoints by answering the following questions.

1. One person indicated there are tremendous benefits to almost everyone in Batesville. Therefore, the town should provide this reduction of property taxes in order to encourage the firm to locate their operation in Batesville.

a. In what ways would the entire town benefit if the firm moved into Batesville?

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b. Why is the property tax reduction a way to get almost everyone in the community contributing to the incentive for the firm?

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2. A presenter also mentions that some of the citizens brought up concerns that focus on additional costs to the residents because of the presence of the new fertilizer plant.

a. What additional costs are generated to all residents of Batesville if the plant creates considerable air and water pollution?

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b. What additional costs are generated to the residents of homes close to the old chair factory if the fertilizer business moves into Batesville?

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c. How can government alleviate those concerns?

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*(Continued)*

3. As seen here, government intervention can lead to activities that encourage businesses and discourage businesses. Explain what this means in relationship to this situation.

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4. From what you have read, do you think the plant should be converted to produce fertilizer in Batesville? Explain your answer.

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\_\_\_\_\_  
Name

# ACTIVITY 66

## *Comprehension quiz, lesson 17*

### ANSWER THE QUESTIONS BELOW:

1. Name three ways in which government can decrease the costs of a small business and provide reasons why government would provide these benefits.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Name three instances in which government can increase the costs of a small business and provide reasons why government would put these actions into effect.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Sometimes the interests of the small business owner conflict with the interests of others in the society, such as the consumer, the wage earner, or the general citizen. Provide three examples showing how this principle is true.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. New business development in a community has many advantages, such as more income in the community, more tax revenue, and more jobs. There can also be a negative side for new business development. Name at least three disadvantages that may be present in new business development.

\_\_\_\_\_