

DOCUMENT RESUME

ED 346 012

SO 022 178

AUTHOR Day, Harlan R.  
 TITLE Economics and Entrepreneurship: Operating a Classroom Business in the Elementary and Middle School.  
 INSTITUTION Indiana State Dept. of Education, Indianapolis.  
 PUB DATE 91  
 NOTE 100p.  
 PUB TYPE Guides - Classroom Use - Teaching Guides (For Teacher) (052)

EDRS PRICE MF01/PC04 Plus Postage.  
 DESCRIPTORS \*Basic Business Education; \*Business Skills; Curriculum Development; \*Economics Education; Educational Objectives; Elementary Education; Elementary Schools; \*Entrepreneurship; Learning Activities; Middle Schools; Skill Development; Social Studies; Student Educational Objectives; \*Student Projects; Teaching Guides; Teaching Methods

ABSTRACT

In a typical classroom business project, students produce and sell a product to other students in their school or to parents and members of the community. Such projects can be an excellent opportunity for students to begin to develop and apply a wide range of skills and for educators to teach important economics and business concepts. This booklet has two basic purposes. First, it is a manual for teachers that provides step-by-step practical instructions for operating a classroom business that are applicable at a variety of grade levels. The second purpose is to show teachers how to use classroom business projects to teach basic concepts more effectively. The booklet contains five chapters: (1) Getting Started; (2) Deciding What and How Many To Produce; (3) Producing the Product; (4) Marketing and Selling the Product; and (5) Closing the Business. Near the beginning of each chapter is a section explaining the important economic concepts introduced in the chapter. In the specific teaching activities, important vocabulary words are listed and defined in student language. Specific questions to ask students also are provided. A 28-item annotated bibliography of curriculum materials is included. Two appendices also are included: (1) Pre/post test on economic concepts; and (2) Attitude survey towards economics and business. (DB)

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# Economics and Entrepreneurship

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OPERATING  
A  
CLASSROOM  
BUSINESS  
IN  
THE  
ELEMENTARY  
AND  
MIDDLE  
SCHOOL

SO 022 178

# *Economics and Entrepreneurship*

*Written by*

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**INDIANA DEPARTMENT OF EDUCATION  
Center for School Improvement and Performance  
Office of School Assistance**

1991

**“***A concept of curriculum development that focuses on cognitive goals, but ignores motivation is destined to fail.***”**

—Task Force on Educational Growth

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# A MESSAGE

*from H. Dean Evans,  
Superintendent of Public Instruction*

In today's competitive, dynamic world, it is more important than ever before that students gain a basic understanding of the world of economics and business. New companies and new technologies are coming into existence in the United States and throughout much of the world at an unprecedented rate, creating exciting employment opportunities for resourceful individuals willing to take risks and capitalize on these changes. This requires an entrepreneurial spirit that looks upon change as an opportunity, not an obstacle; a spirit that seeks creative ways to meet challenges, instead of trying to block them.

Classroom business projects are an excellent way for elementary and middle school teachers to foster this entrepreneurial spirit in their students and at the same time to teach their students important economics and business concepts. These types of projects are highly motivating for students and generate much enthusiasm. The projects also serve as an integrating force in the curriculum, since they give students the opportunity to apply basic skills learned in other subject areas. Students begin to see a reason for mastering the basic skills.

The economic, business, and entrepreneurial challenges of the future are great. By encouraging our students to develop their skills in these important curricular areas, we can prepare them to meet these challenges. In a very real sense, we have no option but to do so. Our economy is not, and cannot, be isolated. Our businesses and workers compete with other businesses and workers throughout the world. Our curricula must reflect this reality. The Indiana Department of Education hopes that this booklet is helpful to that end.



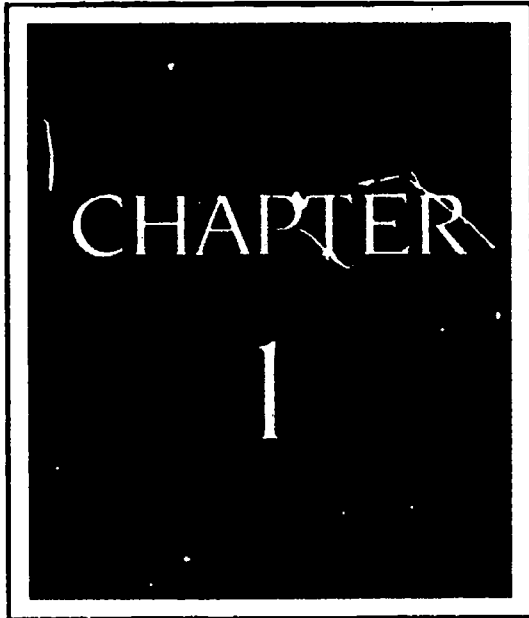
**H. Dean Evans**  
Superintendent of Public Instruction

# Getting Started

## INTRODUCTION

Classroom business projects have long been a favorite of many teachers. In a typical business project, students produce and sell a product to other students in their school or to parents and members of the community. Typical products are food items such as

popcorn, cookies, or candy; craft items, such as potholders and candles; and functional items such as bookmarks, notepads, and paperweights. In one Indiana classroom, first grade students operate a marigold seed company each year.



Teachers usually undertake business projects because they are very motivating for students, and are a welcome change from traditional methods of instruction. However, teachers are becoming more aware of how well business projects enhance the traditional curriculum. Operating a business requires students to apply the knowledge and skills learned in many subject areas. Students begin to see a reason for mastering these skills. For example, students use math skills when computing costs, sales, and profits; language arts skills when applying for jobs and developing

advertising techniques; and fine arts skills when creating products. Decision-making skills are stressed throughout these projects. On a more practical level, business projects are a very effective way for a class to earn money for field trips, school projects, and charitable causes.

Operating a business also provides an excellent opportunity to teach important economics and business concepts that are now very much a part of the social studies curriculum. Some of these concepts include needs and wants, goods and services, scarcity, opportunity cost, productive resources, money, work, income, profit, trade, specialization, entrepreneurship, interdependence, supply, demand, and market price.

## THE PURPOSES OF THIS BOOKLET

This booklet has two basic purposes. First, it is a "how to" manual for teachers. There are many things to consider when operating a classroom business, and at times the details can seem overwhelming. This booklet gives step-by-step, practical instructions which are applicable at a variety of grade levels.



The second purpose of this booklet is to show teachers how to use classroom business projects to teach basic economics and business concepts more effectively. Frequently, teachers do not present important concepts during the course of a business project. Consequently, students complete business projects without ever really learning the important underlying economic and business concepts. Students may enjoy the projects, and indeed, may gain a great appreciation for the world of business and economics, but the actual learning of specific concepts may be minimal. The golden opportunity to teach these concepts in a "real life" context is lost.

For this reason, teachers will notice that economics and business concepts are stressed throughout the booklet. Near the beginning of each chapter is a section explaining the important economic concepts introduced in the chapter. In the specific teaching activities, important vocabulary words are listed and are defined in student language. Specific questions to ask students are also provided.

A pre/post test on Economic and Business Concepts is included in Appendix A. Teachers are urged to use this or other teacher made tests to evaluate the conceptual understanding that occurred as a result of implementing the project. Appendix B contains an Attitude Survey towards Economics and Business and is another useful evaluation tool.

## **SOME IMPORTANT CONSIDERATIONS**

The important considerations discussed below will help teachers get off to a good start with their business project.

### **1. Review the economic concepts that will be taught during the project.**

The brief explanation of the economics and business concepts at the beginning of each chapter is not intended to provide a thorough understanding of the concepts. Teachers may wish to consult other sources. Chapter 2 of the Indiana Department of Education publication, *Teaching Economics in the Mini-Economy*, provides a general overview of basic concepts. Another more complete source is *Understanding Economics: Overview for Teachers, Experiences for Students*, by Marilyn Kourilsky. The Joint Council on Economics Education's *Master Curriculum Guide in Economics: A Framework for Teaching the Basic Concepts* is also very useful.

It is very helpful if teachers take a workshop in basic economics. The Indiana Council for Economic Education (ICEE) sponsors many such workshops throughout Indiana each summer.



In most cases the tuition is provided for participants. For further information contact the ICEE, Room 221, Krannert Center, Purdue University, West Lafayette, Indiana 47907, (317) 494-8545.

**2. Introduce your students to some business and economics concepts before you begin your classroom business.**

There are many curriculum materials available on a free loan basis from the ICEE and its affiliated university centers. Many teachers are using the Indiana Department of Education's motivating set of 15 economics lessons, *Play Dough Economics*, to teach basic concepts.

Another excellent way to introduce students to business and economic concepts is through participation in Junior Achievement's Business Basics program. In this four session enrichment program, 5th and 6th grade students learn basic concepts through discussion, hands-on activities, and role playing. For further information contact Junior Achievement, Business Basics Program Director, 1317 North Pennsylvania Street, Indianapolis, Indiana 46202, (317) 634-3519.

**3. Relate the Business Project to Your Regular Curriculum.**



"Bring on the customers!"

It is helpful relating your business project directly to themes or topics in your social studies curriculum. For example, sixth and seventh graders could produce products representing different foreign countries. Fifth grade students can make products representing a particular era in American history, possibly using the tools and production techniques of that era. Fourth grade students can produce products with a pioneer theme, since this relates directly to Indiana History.

While a classroom business project is usually considered part of the social studies curriculum, teachers should use the business activities to emphasize other areas of the curriculum. For example, use job applications for emphasizing

handwriting skills. Place economics and business vocabulary words on the weekly spelling lists. Have students read biographies of famous inventors and entrepreneurs. Develop math word problems and graphing activities using business situations and data. Have students use business themes for creative writing assignments or keep diaries of daily business activities. The possibilities are endless.

It is also important to realize how widespread the specific business and economic concepts are in the regular curriculum. In most cases, "economics" is not taught explicitly as a separate subject; however, primary teachers frequently teach economic concepts such as needs and wants, goods and services, types of jobs, how people earn money, counting money, spending money wisely, community workers, natural resources, tools and machinery, and scarcity.

In the intermediate grades, teachers introduce additional topics such as trade, specialization, productivity, assembly lines and mass production, unemployment, how geography influences trade, supply, demand, technology, economic systems, and taxes. Many of these primary and intermediate level topics can be emphasized in the context of a classroom business.

#### **4. Teach Concepts in Everyday Class Situations.**

Avoid teaching economics and business concepts only during "business time." Instead, use everyday classroom situations to teach and reinforce economics concepts. Many concepts can be taught informally, as situations arise naturally in the classroom. Chapter 3 in *Teaching Economics in the Mini-Economy* explains in further detail how to do this.

#### **5. Get Permission from Your Administrators.**

Discuss your classroom business plans with your principal. There are always practical administrative considerations to consider when undertaking such a project. Your principal will want to set broad parameters for the project, and can also give much practical advice. It is important that the principal understands how your project emphasizes social studies concepts and how it ties together the other subjects in the curriculum.

#### **6. Use Parents and Other Community Resources.**

It is wise to send a letter home to parents, describing the basic details of the business project and soliciting their help. Parents are a valuable source of expertise, and in most cases, will want to help make the project a success. Put a tear-off sheet at the bottom of the letter so that parents can indicate how they can help. It is probably

best to send the letter home after the class has decided exactly what product to produce.

The resourceful teacher will also use other community resources during the course of a business project. Business people can visit the classroom to explain how to raise financial capital, market products, and perform accounting procedures. Labor representatives can show how to make products efficiently while keeping quality high. If possible, let your students visit a community business or factory.

### **7. Don't Forget to Evaluate Your Students.**

Before doing any curriculum project it is wise to plan some kind of evaluation. Teachers can use all or part of the test provided in Appendix A or can construct their own tests. Teachers may also want to use the Attitude Survey provided in Appendix B to measure changes in attitudes toward economics and business that have occurred as a result of doing a business project. Teachers who teach some economics immediately before the beginning of the business project (see point 2. above) may want to pre-test immediately before this instruction takes place.

## **DO I NEED TO DO EVERYTHING IN THIS BOOKLET?**

Probably not, but you may do more than you think. Teachers in the lower primary grades will not do all of the suggested activities, especially those that are too complex for their students, or that introduce concepts that are too difficult. However, primary teachers can adapt most of these activities to their particular grade level, and will find their students responding enthusiastically to them.

Teachers in intermediate grades also may wish to omit certain activities. The important thing to remember is that this booklet is a tool to help you. *Don't worry if you don't follow every step or suggestion.*



## OUTLINE OF STEPS

### FOR OPERATING A CLASSROOM BUSINESS

Below is an outline listing the basic steps for operating a classroom business. Each step represents a chapter goal and is explained in detail in the rest of this booklet.

#### **STEP 1 Decide What to Produce (Chapter 1)**

Objective 1: *Identify several possible products*

Objective 2: *Identify final product (use decision grid)*

#### **STEP 2 Decide How Many Products to Produce (Chapter 2)**

Objective 1: *Conduct a Market Survey*

Objective 2: *Identify Productive Resources*

Objective 3: *Estimate the Cost of Producing the Product*

Objective 4: *Estimate Profits*

#### **STEP 3 Organize the Business (Chapter 3)**

Objective 1: *Determine the form of Business Ownership*

Objective 2: *Choose Managers for the Business*

#### **STEP 4 Finance the Business (Chapter 3)**

Objective 1: *Raise Money to Start the Business*

#### **STEP 5 Produce the Product (Chapter 3)**

Objective 1: *Choose Students for Specific Jobs*

Objective 2: *Produce the Product*

#### **STEP 6 Market the Product (Chapter 4)**

Objective 1: *Advertise Your Product*

#### **STEP 7 Sell the Product (Chapter 4)**

Objective 1: *Determine Product Price*

Objective 2: *Sell the Products*

#### **STEP 8 Make Decisions About Profits (Chapter 5)**

Objective 1: *Compute Profits*

Objective 2: *Decide How to Use Profits*

Objective 3: *Make a Final Report*

# Deciding What and How Many to Produce

## CHAPTER GOALS

This chapter has two major goals. The first goal is to decide *what* product to produce and sell. The second goal is to estimate *how many* products to produce.

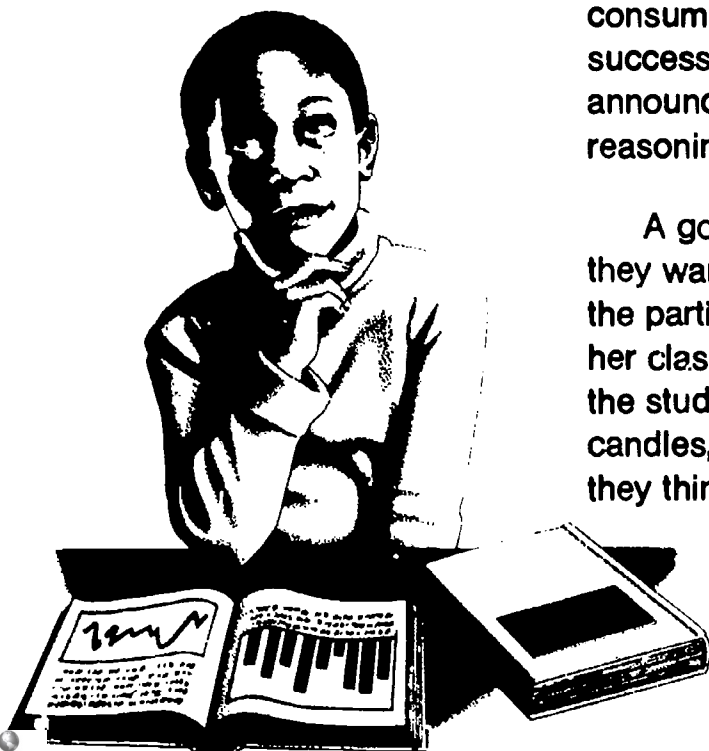
# CHAPTER 2

In many instances teachers have already decided what product to produce. For example, it may be a tradition for students in a particular class or grade level to produce and sell chocolate chip cookies each year. Or, the teacher may simply have a favorite craft item in mind for the class to produce. This certainly simplifies the situation!

However, teachers should seriously consider involving their students in deciding what product to make. There are several compelling reasons for this. First, by taking part in the decision-making process, students identify more strongly with the project. They sense that it really is their project, and they develop an even stronger incentive for making the business succeed.

Second, getting students involved in the decision-making process adds a very important element of realism to the project, since it forces students to consider the desires of potential consumers. In other words, students learn that in order to be successful, a business must satisfy the wants of consumers. Simply announcing the product to the class shortcuts this entrepreneurial reasoning.

A good alternative for teachers who already know what product they want their students to produce, is to let the students determine the particular *type* of product. For example, a teacher who wants her class to bake and sell cookies can use Goal 1 activities to help the students determine what kind of cookie. If the teacher chooses candles, the students can determine the style, color, and shape that they think will meet consumer demand.



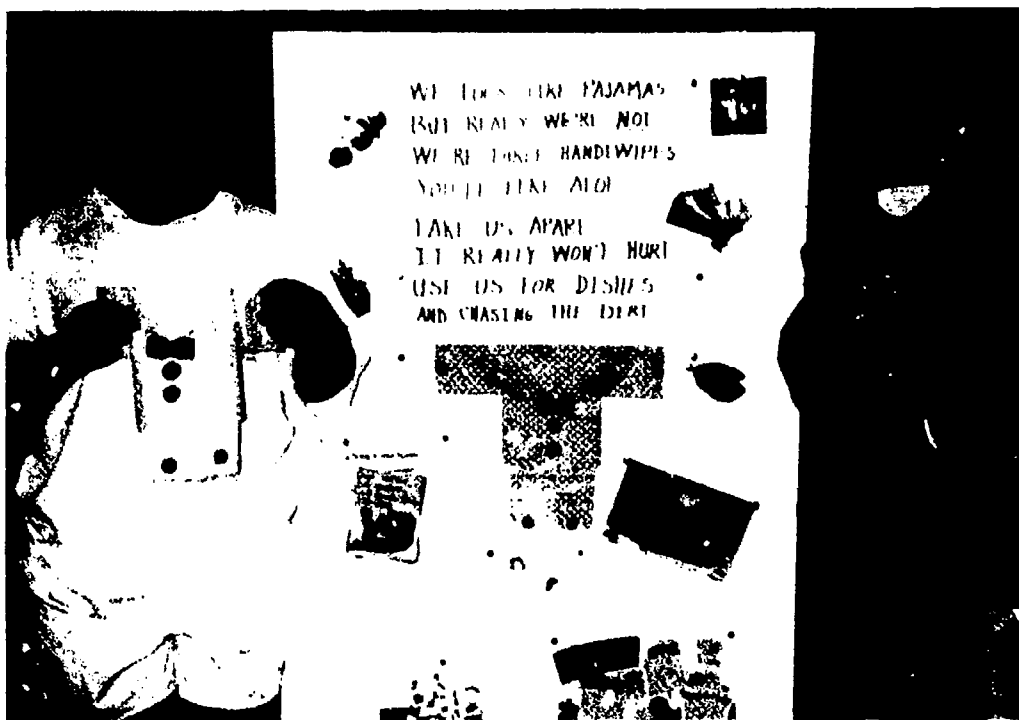
# EXPLANATION OF ECONOMICS AND BUSINESS CONCEPTS TAUGHT IN CHAPTER 2



## *Productive Resources and Scarcity*

People everywhere want **goods** and **services**. Goods are tangible items such as books, cars, carrots, paper clips, and shirts. Services are activities that people want done for them, such as haircuts, car repairs, teaching, or housecleaning. Fortunately, every society is endowed with resources which can be used to provide many of these goods and services. These resources, which economists call **productive resources**, are usually classified into three groups: **land**, **labor**, and **capital**.

**Land** is a broad term referring to all natural resources, such as coal, water, trees, and land itself. **Labor** is the human work effort, both physical and mental, expended in production. **Capital** refers to man-made physical resources, such as buildings, tools, and equipment (**physical capital**), and to the human skills (**human capital**) used in production. With elementary students it may be easier to identify these three basic categories as **natural resources**, **human resources**, and **capital resources**.



"Pajama dishcloths for sale!"

The problem confronting individuals is that the productive resources, and therefore the goods and services that can be produced from them, are limited; whereas, the goods and services that individuals want are virtually unlimited. This tension between unlimited wants and the limited productive resources available for satisfying these wants is what economists refer to as **scarcity**. Thus, computers, pencils, hammers, oil, paper clips, haircuts, and bananas are all scarce because many individuals desire them, but their availability is limited. In other words, at a zero price, they are not available to individuals in unlimited quantities.



## *Entrepreneurship*

**Entrepreneurs** are those risk-taking individuals who start businesses in order to provide goods and services. The entrepreneur purchases scarce productive resources, and then organizes the production of a particular good or service.

The main goal of the entrepreneur is to make a **profit**. Profit is the dollar amount remaining after all the costs of production have been subtracted from sales revenues. In order to make profits and be successful, entrepreneurs must satisfy the wants of consumers. If the wants of the consumer are not satisfied, then the entrepreneur's business will suffer losses and eventually will fail.

This means that entrepreneurs must choose carefully how to use their scarce productive resources. Resources used to produce one particular good or service cannot be used to produce another. A building used for a pizza restaurant cannot simultaneously be used for a television repair shop. The important idea to teach students is that the true cost of using a resource is the best alternative use for that resource. Economists call this best alternative use the **opportunity cost**. In our example above, if an entrepreneur believes that a pizza restaurant and a television repair shop are the two best uses for the building, then the opportunity cost of opening the restaurant would be the gain foregone by **not** opening the repair shop. Likewise, the opportunity cost of opening the television repair shop would be the gain foregone by **not** opening the pizza restaurant. Because of the scarcity of productive resources, there is an opportunity cost to every entrepreneurial decision.

There are many uncertainties in running a business. Entrepreneurs may overestimate consumer demand for their products; or, prices of productive resources may rise unexpectedly. There could be labor strikes, unexpected and costly government regulations, or increased competition from abroad. The uncertainty of the future guarantees that every business venture will entail some degree of **risk**. Entrepreneurs will produce goods and services only if the expected profits are great enough to warrant the risk incurred in production.

## **GOAL 1—DECIDING WHAT TO PRODUCE**

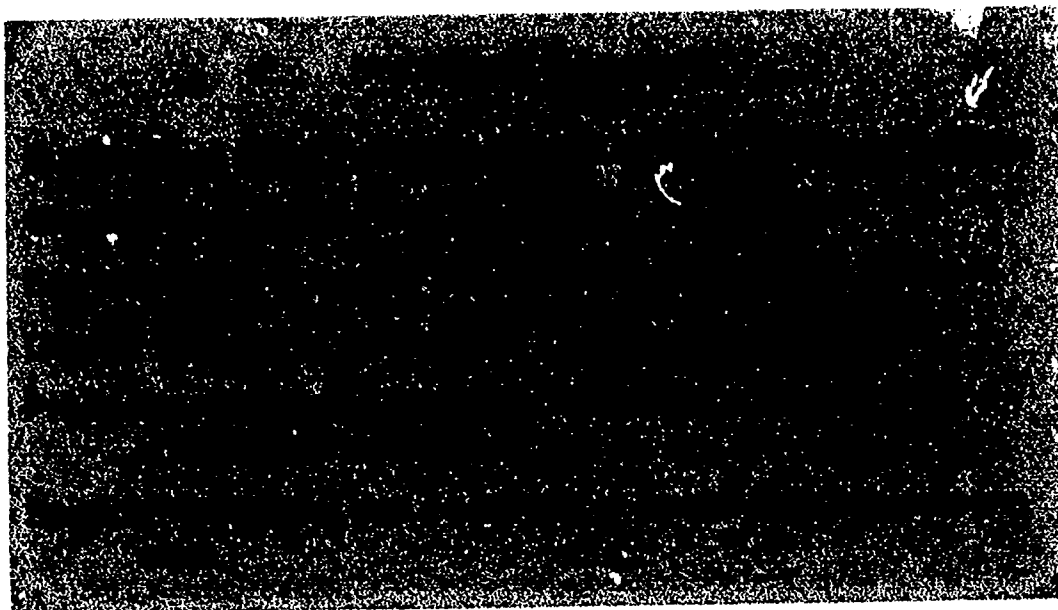
In this section, you will determine exactly what product the classroom business will produce. Many economics and business concepts are introduced to your students. Teachers have found it very helpful to teach many of these basic concepts before beginning the actual business project. This reduces the number of new concepts the students must learn, and instead allows students to focus on how the concepts relate to the classroom business situation.

Teachers who already have determined the **exact** product (eg., type, shape, color, flavor, etc.) for their business project should teach the economic concepts in this section, and then skip to Goal 2, Deciding How Many Products to Produce.

### ***Teaching Objectives for Goal 1***

The teaching objectives for accomplishing Goal 1 are described below. Under each objective are listed the economic concepts and specific activities required to accomplish each objective. Specific questions to ask students and helpful teaching tips are also listed.

**OBJECTIVE 1:** *Identify Two or Three Products that the Class Could Produce and Sell*







## Specific Teaching Activities

- Discuss what a business is with your students. Have students give examples of businesses.
- Discuss the term “entrepreneur.” Give examples of past and present entrepreneurs, or read a book that describes the successful business ventures of a famous entrepreneur.
- Bring two or three products (goods) to class that could be produced in your business project.
- Ask the class if they would like to be entrepreneurs and earn some money by starting a business which sells one of these products. Invite discussion about which of the two or three products to produce. Since there may be some disagreement, initiate a decision-making exercise (Objective 2 below) to reach a consensus.



## Questions to Ask Students

- Are these products a good or a service? (*Usually a good although students may want to provide a service. Sometimes a class can provide a service with their product. For example, for a fee, students can wrap and/or deliver customer purchases.*)
- What do we call people who will buy our product? (*Consumers*)
- What do we call a person or business who provides a good or service to consumers? (*Producer*)
- What is the special name for a person who takes the risk to start a business? (*Entrepreneur*)
- Write this sentence on the board: Businesses make goods for consumers. Underline the work “make.” What word could we use instead of “make?” (*Produce*)

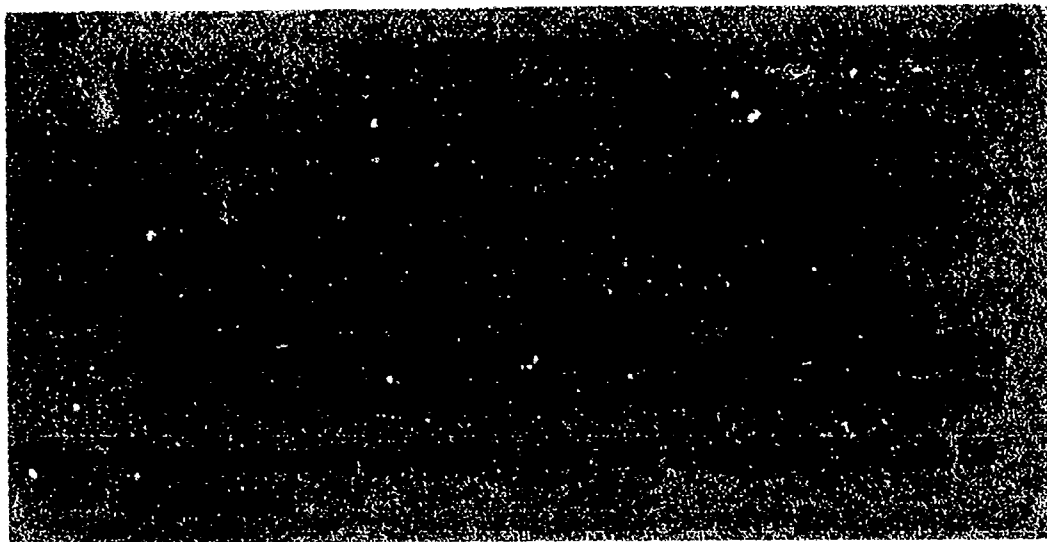


## Teaching Tips

- Bring labor-intensive products that will involve most of the class in the production.

- Have your students begin an economics/business notebook. In it students can define vocabulary, write essays about the business, paste magazine pictures that represent various concepts, record business data, keep a business diary, etc.

**OBJECTIVE 2: *Use a Decision-Making Grid to Help Determine What Product to Produce***



**Specific Teaching Activities**

- Use the five step decision-making process described below to choose which product to produce. Use the Decision-Making Grid, Form 2-1.

*Step 1. Define the Problem*

This part is easy—what product should we produce?

*Step 2. List the Alternatives*

Simply list the two or three potential products from Objective 1 on the left side of the Decision-Making Chart.

*Step 3. Define and List the Criteria*

With your class, discuss important criteria and list the most important ones across the top of the Chart. Criteria can include: Can We Produce It?, Will Consumers Like It?, Affordable for Consumers?, Safe for the Environment?, Profitable to Produce?, Okay with the Principal?, and Very Risky? Students may suggest other criteria: Is It Fun to Produce?, Can All Students Participate?, Enough Time to Produce?, etc.

**FORM 2-1**

**Decision-Making Grid**

<b>Alternatives</b>	<b>Criteria</b>					<b>Points</b>

#### *Step 4. Use the Criteria to Evaluate the Alternatives*

Evaluate each product to see how well it "fits" each of the criteria. Put a number score into each box according to the following scale:

- Fits Very Well - 5
- Fits Fairly Well - 4
- Fits Somewhat - 3
- Doesn't Fit Very Well - 2
- Doesn't Fit Well at All - 1

For example, in the sample Decision-Making Grid (Figure 1), popcorn is usually very Profitable to Produce, so a 5 is placed in the appropriate box. However, students may say that popcorn is not that Fun to Produce, so in this box a 2 could be the score. If the students learn that the principal will not let them sell darts and dart boards, then a 1 should be placed in the Okay With Principal box.

#### *Step 5. Make a Decision*

After placing number scores in each box, add across the rows to determine a score for each product. Compare scores and use them to help make your product choice.

Be careful! The highest score may not be your final choice. It all depends on the importance the class attaches to each criterion. In our example, even though popcorn earned a higher score than candles, the students may still want to choose candles if the "Fun to Produce" criterion is the most important to them. Since we assumed that the principal vetoes the darts and dart board project, the students would not choose that option, even if it scored the most points!



"Just what I wanted!"

## GOAL 2—DECIDING

### HOW MANY PRODUCTS TO PRODUCE

In this section, you will estimate how many products your business will produce. Students first perform a market survey to estimate consumer demand for their product and to better determine consumer preferences about the product. Next students identify the productive resources needed to operate the business. Then the class calculates the explicit costs of using these productive resources, and estimates the total cost of making the products. Armed with this information, the class can determine how many products to produce and can estimate profits.

### *Teaching Objectives For Goal 2*

#### **OBJECTIVE 1: *Conduct a Market Survey***



#### **Specific Teaching Activities**

- Explain that before production can begin, we need more information about how many of our products perspective consumers will buy. Ask students for suggestions. Explain that



## Questions to Ask Students

- What are “criteria?” (*Important things to consider when making a decision*) What are the criteria we used in making our decision? (*Discuss the criteria the class listed on their Decision Chart*)
- What is the opportunity cost of choosing our particular product over the others? (*The value of our next best alternative. In the example, if the candles were chosen, then the opportunity cost would be not getting to produce popcorn. Because of the principal, the dart/dartboard project is no longer an option. The crucial concept to teach students is that there is an opportunity cost to every producer decision. Producers and entrepreneurs must make choices how to use their scarce productive resources. A decision to produce one product means giving up the opportunity to produce another.*)
- What is profit? (*The income remaining after subtracting all costs from revenues; the money we will earn if we have successful business*)



## Teaching Tips

- Emphasize that the more a business satisfies the wants of consumers, the more profitable it will be. Successful entrepreneurs are skilled in anticipating and providing for the most urgent wants of consumers.
- “Malcolm Decides,” from the *Trade-Offs* series, is excellent for teaching 3rd-5th grade students the basic decision-making model described above. For middle school students, the first two lessons from the *Give and Take* series, “You Choose: Scarcity and Personal Decision-Making,” and “We Choose: Social Decision-Making,” are excellent. The primary video series, *Econ and Me* teaches students to use a simple “decision tree” to help make decisions.

## GOAL 2—DECIDING

### HOW MANY PRODUCTS TO PRODUCE

In this section, you will estimate how many products your business will produce. Students first perform a market survey to estimate consumer demand for their product and to better determine consumer preferences about the product. Next students identify the productive resources needed to operate the business. Then the class calculates the explicit costs of using these productive resources, and estimates the total cost of making the products. Armed with this information, the class can determine how many products to produce and can estimate profits.

### *Teaching Objectives For Goal 2*

#### **OBJECTIVE 1: *Conduct a Market Survey***



#### **Specific Teaching Activities**

- Explain that before production can begin, we need more information about how many of our products perspective consumers will buy. Ask students for suggestions. Explain that

businesses often conduct market surveys to get information, and that their class business could also.

- Show students the Market Survey Data Collection Form (Form 2-2), and explain how to use it. (Put possible prices for the product in the price column. Put prices from highest to lowest. Students ask individual consumers how many of the product they would be willing to purchase at each price. Each Data Collection Form can be used for six consumers.)
- Discuss ways to contact potential customers. One possibility for getting data from other students, parents, or community members is by direct interview. Another possibility is to set up a table in a strategic location in the school, and solicit information from students who pass by. Don't forget to collect market survey data from your own students if they will purchase products.
- Use the Market Survey Summary (Form 2-3) to analyze your data. Compute the total number of products that would be bought at each price, and write these totals on the Survey Summary. Then plot this data in graph form, using Form 2-4. In economics, this graph is called a demand curve. It is helpful to gather other kinds of information from consumers besides price and quantity data. A class that has decided to sell candles may want to ask consumers what color, size, and style of candle they prefer. Design an additional market survey form with questions to ask consumers about your product.
- Discuss your market survey with the class using the questions below.



### Questions to Ask Your Students

- What is price? *(The amount a consumer pays to buy a good or service)*
- How does a market survey help us? *(It tells us how many of our product consumers will buy at various prices. It also helps us learn exactly what kind of product consumers want most.)*
- At what price will we sell the most products? *(The lowest price!)*  
The fewest products? *(The highest price!)*
- What pattern do we see in our demand graph? *(As price decreases, consumers buy more; as price increases consumers buy less. In economics, this relationship is known as the Law of Demand.)*



**FORM 2-2**

**Market Survey Data Collection Form**

Our class is conducting a market survey to gather information about the product our class is planning to sell. Could you please provide us with some information? How many \_\_\_\_\_ would you buy if the price was \_\_\_\_\_? (Ask each price.)

Price	Person 1	Person 2	Person 3	Person 4	Person 5	Person 6	Total

FORM 2-3

Market Survey Summary

1. In the blanks below put the *total* number of products that the consumers would buy at *each* price. To compute the 3rd column, multiply the first two columns.

Price	Total Number Consumers Would Buy	Amount We Would Earn (Sales Revenue)

2. At what price would we earn the most? \_\_\_\_\_

At that price how many products would we sell? \_\_\_\_\_

What amount would we earn? \_\_\_\_\_

3. Can we make this many products in the time we have for our business project? \_\_\_\_\_

4. If not, how many products \_\_\_\_\_ should we make and at what price should we sell them? \_\_\_\_\_

What amount would we earn? \_\_\_\_\_

**FORM 2-4**

**Graphing Market Survey Results**

On the grid below, graph the results of your market survey. Use the prices and product totals that you put on the Market Survey Summary Sheet (Form 2-3).

**PRICE**


**TOTAL NUMBER  
CONSUMERS  
WOULD BUY**

1. At what price will we sell the most products? \_\_\_\_\_
2. At what price will we sell the fewest products? \_\_\_\_\_
3. What pattern do you see on your graph? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

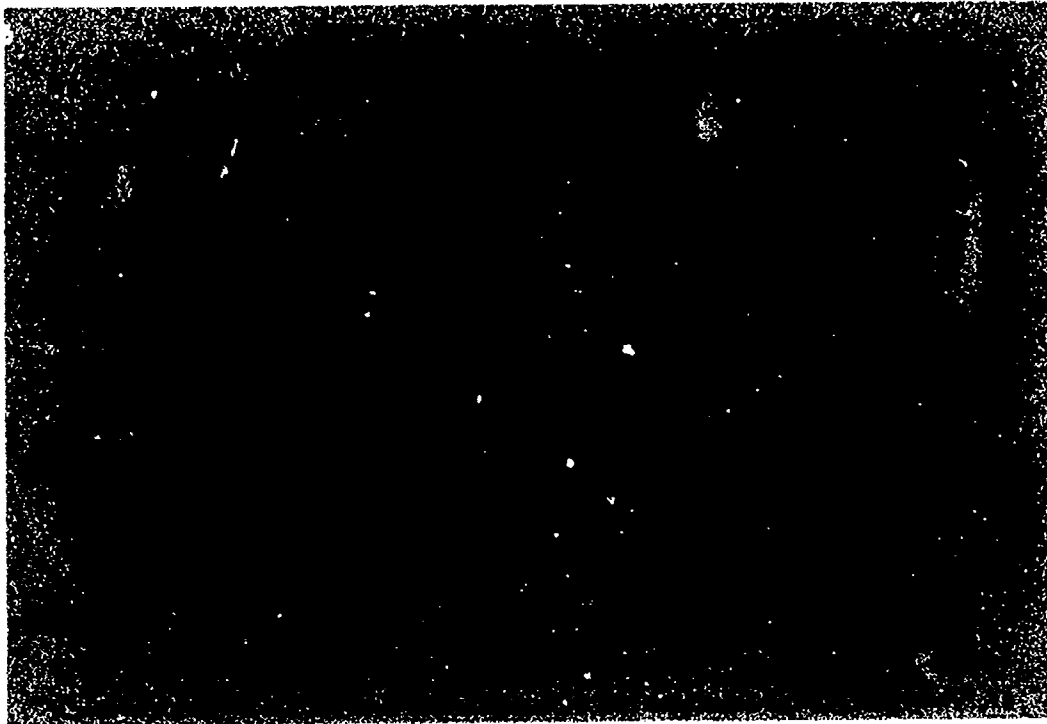
- At what price will we make the greatest amount of sales revenues? *(The price at which the number times the price is greatest.)*
- Could we make this many products in the time allotted to do our business project? *(Hopefully, yes. If not, the class may choose to produce less products, and charge a higher price! Use the market survey data to help you.)*
- Is market survey data guaranteed to be accurate? *(No! It serves as a guide, but you can never be completely sure how consumers will act in the future when the product actually goes on sale.)*



### Teaching Tips

- On the Market Survey Data Collection Form, be sure to have one or two prices that are unrealistically low. This lets students see that at a low price they could sell many products, but the price would be too low to cover the realistic cost of producing the products. (The cost is estimated below in Objective 3.)

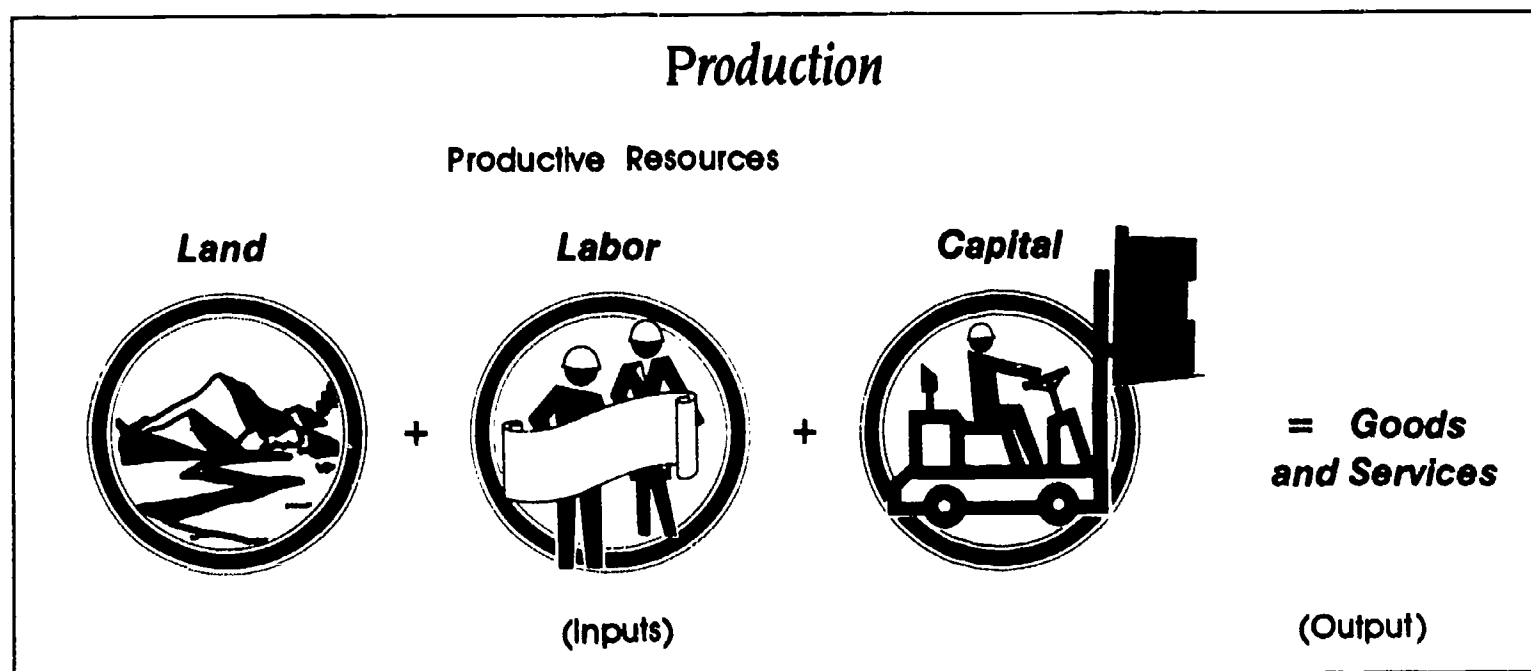
### OBJECTIVE 2: *Identify the Productive Resources*





## Specific Teaching Activities

- Teach students about production and productive resources. The following diagram of the production process may be helpful. It illustrates how the productive resources (land, labor, and capital) are combined to produce goods and services.



- Ask students to identify the productive resources needed to produce and sell their product. Write them on the board and then have students classify the resources on Form 2-5. Younger students may wish to draw pictures of the resources.



## Questions To Ask Your Students

- Are the productive resources needed to make our product scarce? (Yes) Why? (If they were free, there would not be enough for everyone to have all that they wanted.)
- Because the productive resources are scarce, how do we obtain them to make our product? (We have to buy them. However, in a classroom business some of the resources may be donated.)
- What is the opportunity cost of using these productive resources to make our product? (The other possible uses for the resources, i.e., the things that would not be made from the resources as a result of using them to produce our product.)

**FORM 2-5**

**Identifying Productive Resources**

<b>NATURAL RESOURCES (Land)</b>	<b>HUMAN RESOURCES (Labor)</b>	<b>CAPITAL RESOURCES (Tools, Equipment, Etc.)</b>



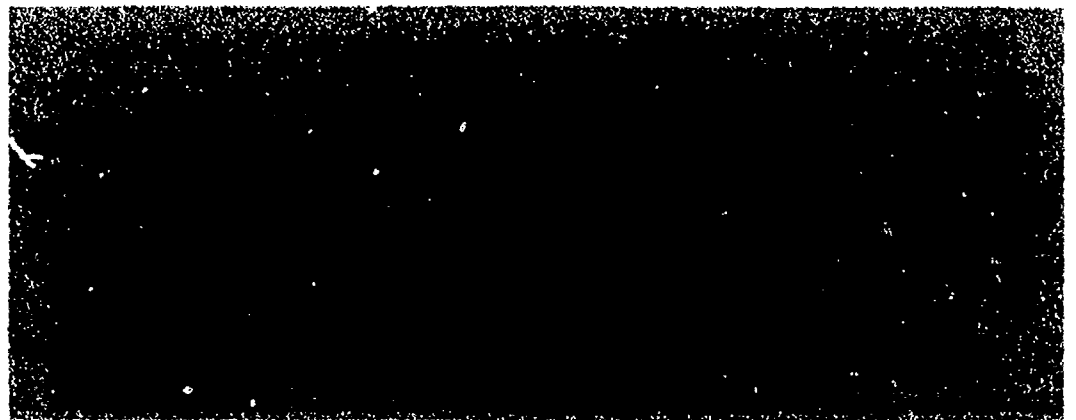
"Making a sale is exciting!"



### Teaching Tips

- Point out that even donated resources are still scarce. They are valuable, and if they were made freely available, other people would want to use them.
- Also point out less obvious productive resources that students may not have identified, such as the use of the school building, electricity, water, etc.
- Classify raw materials you may need, such as paper, yarn, wax, etc., as natural resources. This is not strictly accurate but these intermediate materials certainly contain natural resources and are best classified in this manner.

### OBJECTIVE 3: *Estimate the Cost of Producing the Products*



### Specific Teaching Activities

- With your students, estimate the cost of producing your products by using the Product Cost Computation Sheet (Form 2-6). In the blank at the top of the sheet, put the number of products that you will use for your cost calculations. This number normally would be the amount that gives the most sales revenues, as calculated on the Market Survey Summary (Form 2-3).

FORM 2-6

Product Cost Computation Sheet

Our cost estimate will assume we are producing \_\_\_\_\_ products.

	Quantity	Unit Cost	Total Cost Quantity x Unit Cost
<b>Natural Resources (Land)</b>			
<b>Labor Resources (Labor)</b>			
<b>Capital Resources</b>			
<b>OTHER</b>			
		<b>TOTAL</b>	
		<b>Interest Paid on Loan</b>	
		<b>Grand Total</b>	



- In many cases resources will be donated, or can be used free of charge. Some teachers include these kinds of costs in their calculations. For example, the teacher may require the business to pay the school for the use of school facilities, electricity, etc. Whether or not the teacher charges the business for donated resources, the students should understand that these donated resources are still scarce, and in the real world would be actual costs of business.
- How teachers handle student labor costs varies. In some classroom businesses the students do not receive wages, and labor costs are, therefore, zero. In other projects, teachers pay their students money wages for their work. In this more realistic situation, the teacher must include student wages in the cost calculations.
- To calculate the average cost of producing one product, merely divide the Grand Total by the total number of products.



### Questions to Ask Students

- What are some of the costs of the productive resources we need for our project? (*Answers will vary. You will have to research some of these costs before completing Form 2-6.*)
- What productive resources are we using at no cost to us? (*Electricity, school rooms, donated materials, water, etc.*)
- Are the resources that are donated still scarce? (*Yes!*)
- Are there other ways that we can reduce our costs without sacrificing our product quality? (*There probably are. Discuss with students.*)



### Teaching Tips

- In this exercise you are computing the explicit (i.e., accounting) costs of producing the product. Economists usually consider all of the opportunity costs of production when calculating costs and profit. For example, if a classroom business earns \$50 by operating a candle business, but could have earned \$75 by operating a popcorn business, the business in a very real sense has *not* earned a profit. Economists would say the business earned an **accounting** profit of \$50, but an **economic** profit

of *minus* \$25! That is, there was an economic loss because the productive resources were not put to their best use.

- It is probably best to list donated resources on the Cost Estimation Sheet and to record the cost as zero. Students will see that there are many costs to running a business in the real world that they are avoiding in their classroom business.
- You may be able to reduce costs by renting some equipment instead of buying it. Encourage students to think of creative ways to reduce production costs. This will make your business more efficient and will increase your profits.

#### **OBJECTIVE 4: *Estimate Profits***



#### **Specific Teaching Activities**

- Explain profit to your students.
- Compute the estimated profits of producing your product. Simply subtract the grand total of costs (from Form 2-6) from the amount of money you will earn from selling all of your products (Form 2-3 Market Survey Summary, questions 2 or 4).
- Ask students if the expected profits are worth the effort of operating a business. Explain that there are real opportunity costs to operating a business. Maybe there are other things the students would rather do! (This is unlikely, but the issue should be raised.) If the profit estimate is too low (or negative), students may choose to produce a different product.



#### **Questions to Ask Students**

- How can we compute the estimated profits? (*Subtract our estimated costs from our estimated sales revenues.*)



**"Thank you for shopping!"**

- **Is this expected profit enough to encourage us to continue our project? (In most cases, yes. If not, maybe we shouldn't do a business project! There are other valuable things we could be doing. Or, maybe we should choose another product.)**
- **Are we guaranteed to make a profit? (No, since we cannot be certain of the future. Our costs could rise; consumers may not really buy our product; we might have production difficulties, etc.)**
- **Are most businesses successful? (No, not in the long run. Over half of new companies fail in their first two years of operation.)**
- **Why do people start businesses if it is so risky? (There is still the chance of making a large profit. Some people want the satisfaction of being their own boss; entrepreneurs have a significant amount of freedom, control, and independence.)**
- **What are some of the characteristics of a successful entrepreneur? (Hard work, honesty, organization, persistence, creativity, willingness to take risks, competitiveness, ability to predict future consumer wants)**
- **How old do you have to be to start a business? (You can start your own business when you are young—even right now!)**
- **What kinds of businesses could you start next summer? (Lawn mowing, babysitting, pet watching, weeding and watering while neighbors are on vacation, etc.)**



## Teaching Tips

- Some classes continue their businesses in the summer. Students produce products to sell at summer festivals in their communities.



"Some happy salespersons!"

# Producing the Product

## CHAPTER GOALS

There are three major goals in this chapter. The first goal is to organize the business. The students choose a form of business ownership and then determine a decision-making structure. In most classroom businesses, there are student managers. Each manager, or officer, is responsible for a specific aspect of the business, such as production, marketing, and accounting.

# CHAPTER 3

The second goal is to determine how to finance the business. The class will have to decide how to raise money to purchase productive resources and get their business "off the ground." Classes usually seek a loan or issue stock. Students may wish to use some of their own savings to get started.

The final goal in this chapter is to actually produce the product. This, of course, is one aspect of the business project that students like the most.

These three goals form the heart of your classroom business project. In the excitement of the business activity, don't forget to teach the important economic concepts that are introduced in the chapter. The students will learn them easily, since they will relate to actual business activities.

Although marketing activities are not described until the next chapter, it is a good idea to begin marketing activities while the Chapter 3 production activities are taking place. This is especially true if not all of the students are needed for production. Students responsible for product promotion and advertising can decide marketing strategies and begin promotions while the other students are engaged in production. This allows selling to begin immediately after production is completed. Careful coordination can allow selling to take place even during production!



## EXPLANATION OF ECONOMICS AND BUSINESS CONCEPTS TAUGHT IN CHAPTER 3



### *Types of Business Ownership*

There are three basic types of business ownership: sole proprietorships, partnerships, and corporations. A **sole proprietorship** has only one owner. This owner has complete control of the business and reaps all profits and suffers all losses. While it is relatively easy to start a sole proprietorship, a major consideration is that the owner is fully and personally liable for all business debts and actions. It also can be difficult for one individual to raise the **financial capital** (money) necessary to operate the business.

A **partnership** is a business that has two or more owners. A partnership has several advantages over the sole proprietorship. It is easier to expand the business, since the partners usually can raise a larger pool of financial capital. There is also shared risk, so if the business fails, all the partners share in any losses. Partners also bring additional management skills to the business. There are also disadvantages. Obviously, the profits must be shared among the partners. Liability is still unlimited, so partners are personally liable for all business actions and debts. A major problem is that the partners frequently have difficulty agreeing on decisions. Dissolving a partnership also can be difficult.

A **corporation** is a company chartered by the state and owned by stockholders. The stockholders are represented by a board of directors, and are liable for company actions and debts only up to the amount each stockholder has invested. This feature is called **limited liability**. An advantage of the corporation is that it is relatively easy to raise financial capital. Transferring ownership is also easy, since it frequently means only selling stock. Disadvantages are that corporations are subject to special government regulation, and that individual stockholders may have a rather limited say in company operations.

### *Raising Money to Start a Business*

There are three basic ways that businesses raise **financial capital** to start or expand business operations: savings, loans, and issuing stock. **Savings** can be personal savings, or can be business savings taken from previous profits. Using savings gives the business complete control over how the funds are spent, and, of course, there is no debt to repay. A disadvantage is that it frequently takes a long time to save sufficient funds.



**Loans** represent debt, and must be repaid with interest. Businesses borrow money in a variety of ways, usually from banks or other lending institutions. Businesses also issue debt instruments called **bonds** to borrow money. There is significant flexibility in how to spend borrowed money, and borrowing money instead of waiting to accrue savings allows business projects to start much sooner.

Issuing **stock** is a third way for businesses to raise financial capital. The company issues **stock certificates**, which represent **shares** in the company. Each share is issued at an initial market price, but the future price of the shares fluctuates depending on the success of the company. Stocks represent ownership (equity) in the company, and stockholders have voting rights proportional to the amount of stock owned. Stockholders elect a board of directors to oversee company operations and make major decisions. Since stocks are not debt, the stockholders bear the risk of the success or failure of the business. If the business earns profits, stock holders frequently receive **dividends**, which may grow if the business remains successful. An individual wanting to relinquish ownership must sell the shares to another individual. **Stock markets** have evolved to make such transactions easier. The New York Stock Exchange is probably the best known stock market.

### *Production and Productivity*

Businesses engage in **production** when they use productive resources to produce goods and services. Businesses today usually use some form of **mass production**, in which specific production tasks are divided into smaller tasks on an **assembly line**. **Unit production**, in which one or a few workers complete an entire product, is still practiced, mainly in home businesses or in businesses that specialize in products demanding a high level of individual craftsmanship.

The important concept, **productivity**, measures production efficiency. Productivity measures the amount of goods or services produced (output) relative to the productive resources (inputs) used. It is expressed as a ratio.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

**Labor productivity** is the type of productivity used most often and is expressed as:

$$\frac{\text{Output}}{\text{Labor Hour}}$$

The **division of labor** on an assembly line greatly increases labor productivity, generally resulting in higher wages for workers. A

good historical example is Henry Ford's mass production of the automobile. By using a highly productive assembly line process, Ford could offer cars to consumers at much lower prices, and yet could pay his workers high wages that were practically unheard of at that time! A major disadvantage of assembly line production is that the work is usually monotonous. Also, individual workers do not enjoy the satisfaction of producing a complete product. For these reasons, job satisfaction on an assembly line may not be very high.

Highly specialized assembly line production results in greater *interdependence*, since workers must depend on other specialized workers to complete other tasks. If one crucial task cannot be completed, the entire production process stops. Anytime greater specialization occurs in economics, there is greater interdependence.

Unit production is generally not as efficient as assembly line production, and wages therefore may be less. However, unit production usually yields a high degree of job satisfaction, and for that reason may be preferred by certain workers.

Businesses try to improve labor productivity whenever possible. This may mean providing workers with more advanced capital. Sometimes it means providing more training for workers. Some firms devise better ways to organize and manage the production process. Perhaps the most fundamental way to improve labor productivity is simply for individuals to work harder. Increased labor productivity means a more efficient use of productive resources, and usually, more profits for the business and higher wages for employees.



## **GOAL 1—ORGANIZING THE BUSINESS**

In this section, your class will choose a form of business ownership, and then will develop a management structure for the business. Classes normally have managers which oversee the various aspects of the business. These managers often choose their workers, and direct the business activity in their specific area of responsibility. Sometimes classes take a more democratic approach, and make business decisions as a class. This has the advantage of getting more students involved in decisions, but is frequently unwieldy, and can take additional class time. A combination of approaches is often used, where the students managers handle day to day business responsibilities themselves, but bring major decisions before the whole class.

### ***Teaching Objectives For Goal 1***

#### **OBJECTIVE 1: *Determine the Form of Business Ownership***



#### **Specific Teaching Activities**

- Discuss the three basic types of business ownership in the United States, and the advantages and disadvantages of each.
- Decide which form of business ownership is appropriate for the class business. Classrooms usually form themselves into corporations.
- Select a name for your company.



"Open for business!"



### Questions to Ask Your Students

- What are the three basic types of business ownership in the United States? (*Sole proprietorship, partnership, corporation*)
- Which type of organization is usually biggest? (*Corporation*)
- Which type of organization is the most common? (*Sole proprietorships, which comprise 70 percent of all businesses. Partnerships comprise 10 percent. Although corporations comprise about 20 percent of all businesses, they receive approximately 90 percent of the money businesses receive for their goods and services.*)



### Teaching Tips

- Don't study stocks in much detail at this point. Students will cover this topic in Goal 2, Financing the Business.

## OBJECTIVE 2: *Choose Managers for Your Business*



### Specific Teaching Activities

- Ask the class what type of decisions must be made to operate the business? (What jobs will each student have?, What will be the final price and wages for the product, wages, etc?, Will we advertise?, What will we do with the profit?, etc.)
- Discuss how your business will make these decisions. Explain that in a business, managers are responsible for important decisions. Identify major areas of responsibility for your business, which could include:

**President**—oversees the entire business

**Personnel Manager**—responsible for hiring, firing, and keeping personnel records

**Production Manager**—responsible for the production of the product

**Marketing Manager**—responsible for advertising, promoting, and selling the product

**Finance Manager**—responsible for financial records

- Choose managers to be responsible for these areas. The class can elect the managers, or you can choose from those who submit applications.



## Questions to Ask Your Students

- **What is the difference between an employer and an employee?**  
*(Employers are owners and hire employees to work for them.)*
- **What is the difference between managers and workers?**  
*(Managers are the primary decision-makers in a business.)*
- **Why are managers usually paid more than other workers?** *(They have more responsibility, and usually have better education and training.)*



## Teaching Tips

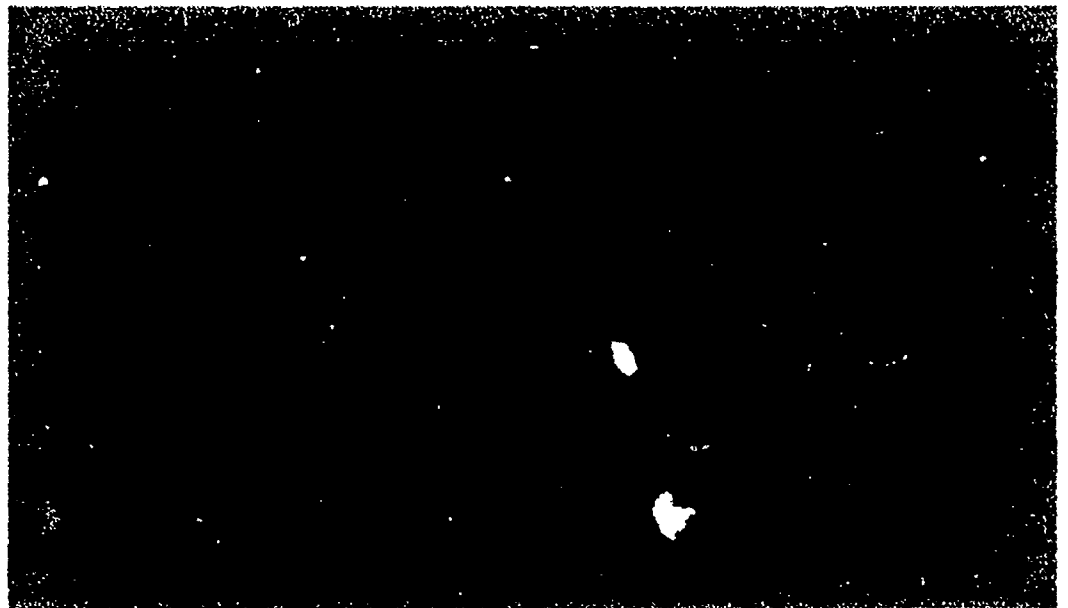
- In many classes the managers (officers) meet as a “board of directors,” and make many of the major decisions. The board sometimes presents major decisions to the whole class for discussion and vote.
- Be sure your students know if manager jobs will pay more than the other jobs.
- It is a good idea to move ahead and do Goal 2, Financing Your Business, right away, since your students will be anxious to get started.

## GOAL 2—FINANCING YOUR BUSINESS

In this section, students will learn the three basic ways to finance a new business: personal savings, loans, and issuing stock. Students will choose which way to finance their business, and then will raise the necessary funds. This is an exciting part of your business project, since the class will confront the reality of being responsible for using these funds wisely. This section also offers a valuable opportunity for inviting community members to speak to your classroom.

### *Teaching Objectives For Goal 2*

#### **OBJECTIVE 1: *Raise Money to Start the Business***



#### **Specific Teaching Activities**

- Discuss the three basic ways new businesses raise money to get started. Explain that established businesses frequently use business savings gained from past profits to expand operations.
- Discuss the advantages and disadvantages of personal savings, loans, and stock issues.
- Choose which method (or combinations of methods) to use to finance the business. The following two pages show some ideas for using each method.

### *Personal Savings*

- Each student contributes to the savings pool. At the end of the project, the students get their money back.
- The teacher uses his or her own savings. This is recommended only if the teacher is the official "owner" of the business.
- Use money saved from past business projects. Some teachers take a fixed percentage from current profits to help finance future businesses.

### *Loans*

- Write a brief "business plan" describing your business ideas and then apply for a loan from a local bank. Invite bank officers to come and explain loans and interest to the class. The business president should sign the loan, possibly with the teacher's co-signature. Try to get local newspaper coverage of this event. It's good publicity for both the school and the bank.
- Borrow money from the teacher, school, or PTA. The loan should be paid back with interest to illustrate real world business situations.

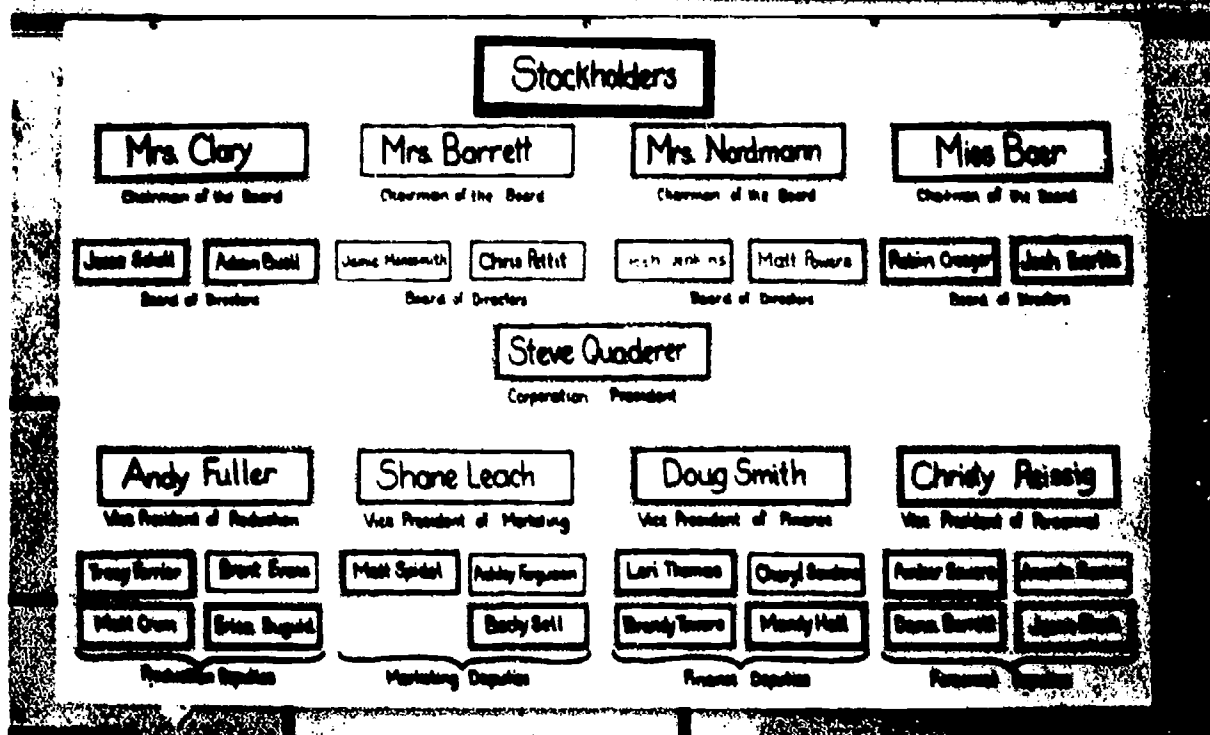
### *Stocks*

- Write a brief "Prospectus" describing your company. This should describe present and future operations, products to be made, potential risks, possibility for future dividends, etc.



"I think we're ready!"

# PRESENTING BUTTONS ARE US



"Our business is really organized!"

Prospective stockholders (usually parents, relatives, and neighbors) should examine the prospectus before agreeing to purchase stock.

- The class may use Form 3-1 for a stock certificate, or may design an original certificate. The class must determine a per share offering price (typically \$.50 or \$1).
- If time permits, invite an investment representative to your class to explain stocks.



## Questions to Ask Students

- What are the three basic ways that businesses raise money? (*Savings—either personal or business, loans, and stock issues*)
- How is stock different from a loan? (*Stock represents ownership in the business; loans represent debt, and must be repaid with interest.*)

FORM 3-1

# Stock Certificate

Incorporated in the State of \_\_\_\_\_

Certificate Number \_\_\_\_\_

This certifies that

\_\_\_\_\_ is the

owner of \_\_\_\_\_ shares of common stock of \_\_\_\_\_

The initial offering price of this stock is \_\_\_\_\_ per share.

Issued this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

48

49

\_\_\_\_\_  
Treasurer

\_\_\_\_\_  
President



- What is the opportunity cost of using one's personal savings to start a business? (*The interest that one could have earned if it remained in savings, or the gain from any alternative use for the savings*)



### Teaching Tips

- Students may wish to study banking and stocks in more depth. These are good topics for reports, graphing, reading tables, data collection, etc.
- The manager for finance and his workers can be responsible for many of the details of raising money to start the business.

## GOAL 3—PRODUCING THE PRODUCT

Your class is now ready to begin production. This is one of the most exciting parts of your business project, and your students will be eager to begin. In the excitement that accompanies this aspect of your business, remember to emphasize the many important economic and business concepts that are introduced. To keep things manageable, plan carefully, and give your students as much responsibility as possible for production tasks. You may want to ask some parents to help. Students responsible for marketing the product (advertising, promotions, etc.) may want to begin their tasks now, especially if not all students are needed in production. See Chapter 4, Goal 1 for marketing ideas.

### *Teaching Objectives For Goal 3*

#### **OBJECTIVE 1: *Choose Students for Specific Jobs***



#### **Specific Teaching Activities**

- Discuss the different jobs that are necessary to produce your product. List them on the board, or post the job descriptions using Form 3-2.
- Discuss the different job qualifications, and determine wage rates for the different business jobs. Many teachers give the same wage for all jobs. However, you may want to pay higher wages for jobs that require more responsibility (managers) or that demand a higher skill level. This is more realistic, and illustrates the value of acquiring human capital. It also may be

# Job Description

JOB TITLE: \_\_\_\_\_

JOB DUTIES: \_\_\_\_\_

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

WAGE/SALARY: \_\_\_\_\_

\_\_\_\_\_

NECESSARY SKILLS AND QUALIFICATIONS: \_\_\_\_\_

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

JOB APPLICATIONS MUST BE SUBMITTED TO: \_\_\_\_\_

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

BY THIS DATE: \_\_\_\_\_

necessary to pay higher wage rates for jobs that students do not particularly want.

- Choose students for the different jobs. Students should fill out job application forms (Form 3-3), and submit them to the teacher or the Manager of Personnel. Managers may wish to conduct job interviews.



### Questions to Ask Students

- Why do workers specialize in different tasks? *(People have different skills and like different kinds of work.)*
- How do workers acquire the special skills and knowledge to make them better workers? *(Through education and training)*
- What do we call this special skill and knowledge? *(Human capital)*
- Is it fair that certain jobs earn more than others? *(Yes, because it takes time and effort to acquire the knowledge and special skills that make someone a more valuable and productive worker.)*



### Teaching Tips

- This is an opportunity to teach the scarcity principle—many students wanting one or a few of the preferred jobs. Because scarcity exists in this situation, choices must be made to allocate the scarce jobs. In this case, the students who are the best qualified for the jobs usually get them.
- It is very interesting and worthwhile to ask a personnel director from a local business to speak to the class about job qualifications and other personnel matters. Ask this person to conduct a mock interview.
- It is important that all students remain busy. Allow or require students to help with other jobs if their particular job is completed.

**FORM 3-3**

**Job Application Form**

*(Please complete this form carefully and neatly.)*

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Job Title You Are Applying For: \_\_\_\_\_

Salary/Wage: \_\_\_\_\_

List your qualifications for this job: \_\_\_\_\_

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

Why do you want this job? \_\_\_\_\_

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

List two other jobs you would accept if this one is not available.

1. \_\_\_\_\_

2. \_\_\_\_\_

Signature \_\_\_\_\_



"A plant shop is open for business."

**OBJECTIVE 2: *Produce the Product***





## Specific Teaching Activities

- Discuss different ways to organize production. Analyze why division of labor is more efficient than unit production. Discuss the advantages of unit production versus assembly line production.
- Organize for production. If you have a production manager, this person should take the lead. Set a day and time, and tell students to bring necessary supplies and to dress appropriately. Inform community helpers about important details.
- Produce your product!
- Analyze how labor productivity can be improved. Make these improvements during any subsequent production rounds.



## Questions to Ask Students

- Why is division of labor more efficient than unit production? *(Each worker can use one kind of capital and specialize in one or a few small tasks.)*
- What is labor productivity? *(The number of products that are produced per hour of work)* What was our labor productivity? *(To figure, divide the number of products produced by the total number of hours worked.)*
- What are ways to increase labor productivity? *(Train workers better, organize production more efficiently, use better capital, work harder)*
- When workers divide the labor on an assembly line, does this result in more or less interdependence? *(More, since workers must depend on other workers to complete other tasks)*
- What are some advantages and disadvantages of unit production? *(Advantages: workers get the satisfaction of producing a complete product. Disadvantages: workers are usually not as productive, so in general they receive lower wages compared to assembly line production)*
- What are some advantages and disadvantages of assembly line production? *(Advantages: workers are very productive, and therefore, receive higher wages. Disadvantages: work can be*

*repetitive and boring, without the satisfaction of producing a complete product.)*



### Teaching Tips

- Make sure there is a quality control person to insure product quality.
- Give as much responsibility as possible to students.



# Marketing and Selling the Product

## CHAPTER GOALS

# CHAPTER 4

This chapter has two major goals. The first goal deals with marketing the product. The second, and closely related, goal concerns the actual selling of the product. Both of these goals are an important part of any classroom business project.

Marketing involves all of the activities, including advertising, which help get the product to the consumers. In a classroom business, marketing activities often begin during production. By doing so, students can begin selling their finished products immediately. Also, if there are not enough production jobs for all students, the marketing activities will keep many students busy.

Selling the product and receiving the fruits of one's labors is one of the most enjoyable aspects of a classroom business. While this seems a rather straightforward part of the business, this section will help you to avoid some pitfalls which can put a damper on your business project.



## EXPLANATION OF ECONOMICS AND BUSINESS CONCEPTS TAUGHT IN CHAPTER 4



Marketing is an indispensable aspect of any business. **Marketing** involves all of the activities needed to get the product to the consumer. These activities include advertising, promotion, pricing strategies, store atmosphere and location, and packaging. Marketing is important to a business because no matter how good a product is, if consumers do not know about it, or if it is unavailable to consumers, then the business will suffer. Marketing is also important to consumers. Without effective marketing, consumers would have less information about products, and would have reduced access to them.

The purpose of **advertising** is to provide information about products to consumers in order to increase **demand**. The most fundamental reason that advertising exists is because information, like all other goods, services, and productive resources, is **scarce**. It is not freely available at a zero price. However, consumers need and want information about products so that they can make wiser and less costly purchasing decisions. When this information is provided honestly through advertising, businesses and consumers both benefit.

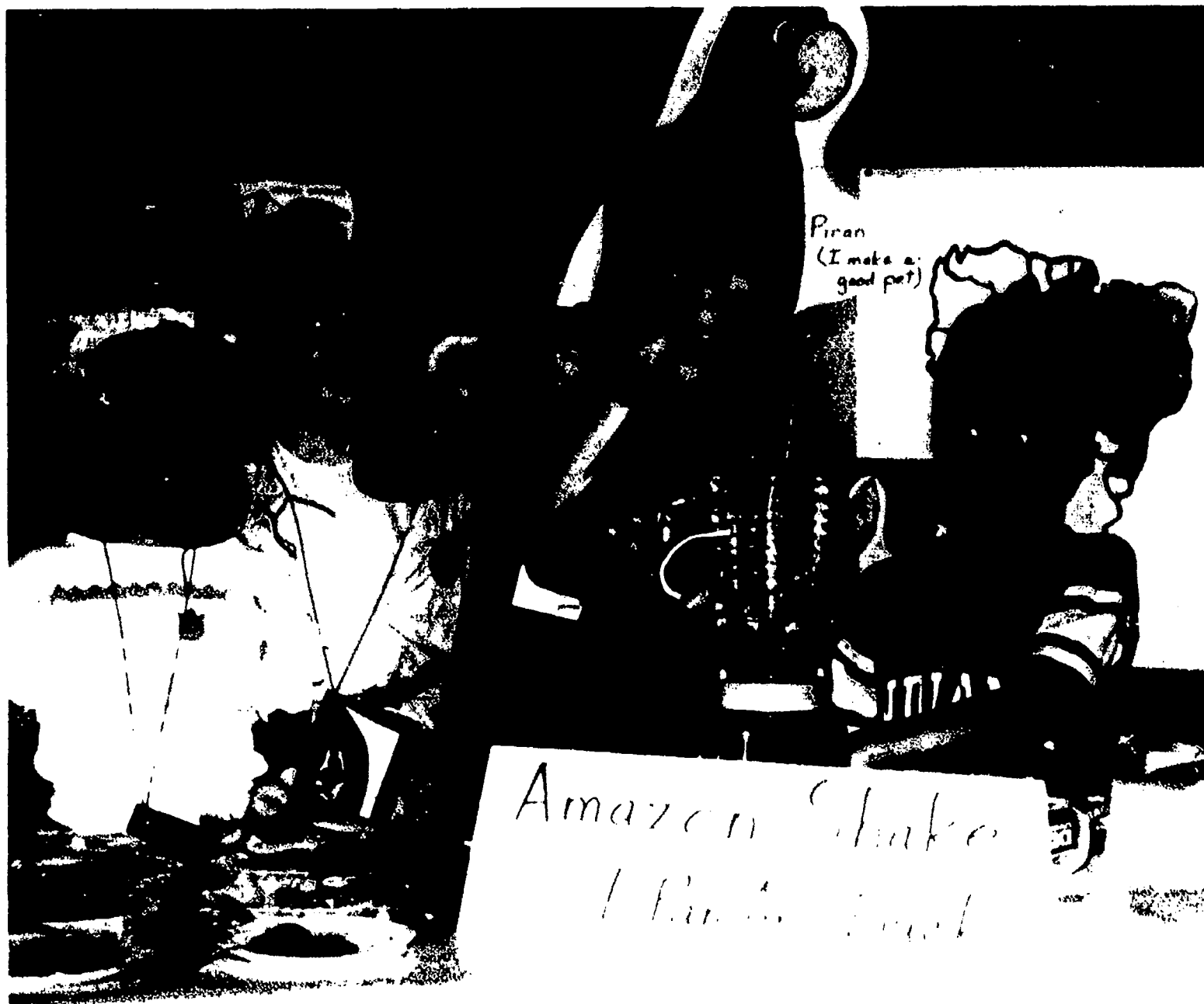
Unfortunately, some advertisements are not completely truthful. To protect consumers, the government has established regulations which prohibit deceptive advertising practices. Business groups and professional organizations also have self-imposed advertising standards. It is not unusual for competing firms to take legal action against one another if they think a competitor's advertisement is false or misleading.

Advertisers use various advertising techniques. The simplest advertisements provide basic, factual information about products and prices. More persuasive advertising techniques include testimonials by experts, association with celebrities and attractive people, conformity ("join the crowd") appeals, intellectual appeals using facts and figures, and suggestions that using a product will bring certain desirable results.

Businesses almost always face **competition**, and therefore must be careful to sell at competitive prices. The price that "clears the market," i.e., that matches what businesses want to sell and what consumers want to buy, is the **market price**. If the price a business sets for a product is above a competitive market price, then there will be a **surplus** of that produce. In order to sell all of the product, the business must lower the price. If the initial price a business charges is below a competitive market price then there

will be a *shortage*. In this situation a business could raise the price and still sell all of the products, resulting in more revenues and more profits.

The actual selling of a product by salespeople requires special skill. *Salespeople* are on the "front lines" of a business. They must know the product's characteristics—both its strengths and weaknesses, and must learn how to make a sales presentation that introduces their product to consumers in a truthful, yet positive and persuasive manner.



"How about an Amazon shake?"

## GOAL 1—MARKETING THE PRODUCT

While there are various aspects to marketing, your classroom business will probably focus on advertising. Students have so much familiarity with this topic that they will respond eagerly to the challenge of getting information about their product to potential customers.

Students also should realize that they can increase sales by presenting their product in an appealing manner. Students should give their store an appealing "atmosphere," and also should package their product in a visually pleasing manner.

### *Teaching Objectives for Goal 1*

#### **OBJECTIVE 1: *Advertise Your Product***



#### **Specific Teaching Activities**

- A marketing committee (chaired by the marketing manager) should decide what types of advertising are needed. Possibilities include posters and signs, flyers, announcements over the intercom, local newspapers, television, and radio. The committee can present advertising proposals to the board of directors, especially proposals involving considerable expense.
- Assign different advertising tasks and responsibilities to committee members or other student workers.



## Questions To Ask Your Students

- **What is marketing?** *(All activities that businesses do to get their product to the consumer) What are types of marketing activities? (Advertising, packaging, promotions, etc.)*
- **Why do businesses advertise?** *(To provide information to consumers to encourage them to buy products)*
- **How does advertising help producers and consumers?** *(It helps producers by increasing the demand for their products. It helps consumers by giving them more information about products.)*
- **What are some advertising techniques that businesses use to persuade customers to buy their products?** *(Testimonials, association with celebrities and physically attractive people, "join the crowd" techniques, appeals to intellectual "facts and figures," and suggestions that using a product will bring certain desirable results)*



## Teaching Tips

- **The whole class could study advertising.** Identify ads from magazines or newspapers that illustrate various persuasive techniques. Also identify less persuasive ads that provide only basic product or pricing information.



"They're going fast!"

## **OBJECTIVE 2: Determine How to Present Your Product to Customers**



### **Specific Teaching Activities**

- Identify ways to package your product to make it more appealing to customers. Assign students from production or marketing to package your products.
- Identify ways to make your sales tables or "store" more attractive to customers. This could involve creating decorations, displays, colorful signs, etc.
- Identify other promotional activities which could increase sales. For example, some classes set up gift-wrapping services at their store. Others have costumed mascots which carry signs advertising the products. Some businesses offer discounts for early orders. There are many creative possibilities for your business.



### **Questions To Ask Your Students**

- Why do businesses create attractive packaging for their products? *(To make their products more appealing to consumers)*
- Why do businesses have special promotions for their products? *(To increase consumer awareness of their products)*



### **Teaching Tips**

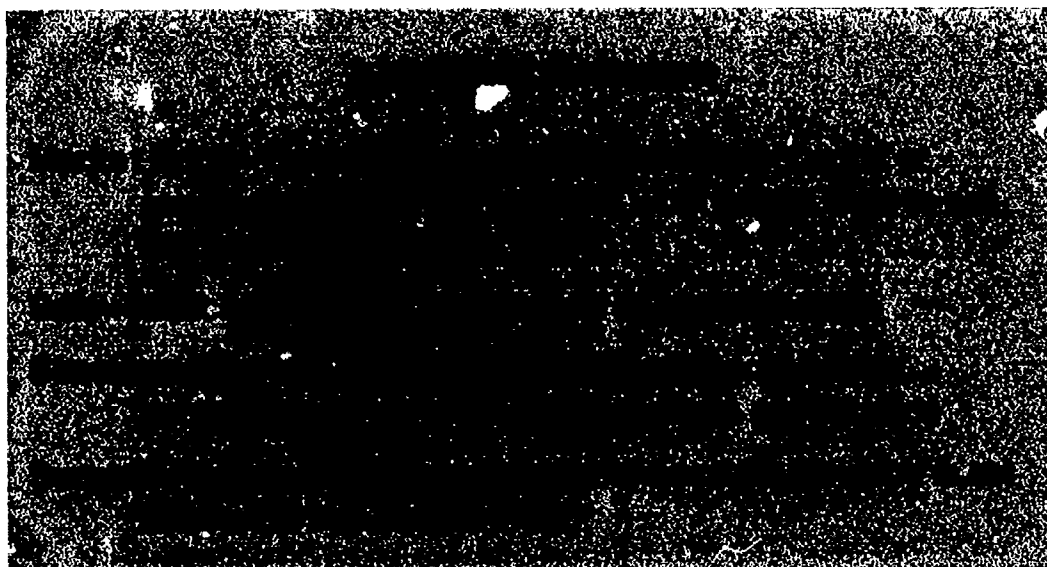
- Be sure to encourage student creativity in all of these activities. Students with artistic ability will excel in many of them.

## GOAL 2—SELLING YOUR PRODUCT

The actual selling of your product is usually the highlight of your classroom business. Students finally will see the fruits of their labors as satisfied customers buy their products. However, there are some important things to remember to make your "Sale Day" run smoothly.

### *Teaching Objectives for Goal 2*

#### **OBJECTIVE 1: *Determine the Product Price***



#### **Specific Teaching Activities**

- Using your market survey and your cost computations as a guide, determine a final price for your products. Typically a business chooses a price that will yield the most profit.
- Determine a pricing strategy to use during the selling period. You must be prepared to lower your price if there appears to be a surplus. You may wish to raise prices if the demand is more than you expected, however, if your prices were advertised beforehand, this may not be feasible.





## Questions To Ask Students

- What is the result if the price we set for our product is above a true market price? (*We have a surplus.*) How do we eliminate the surplus? (*Have a sale and lower the price.*)
- What is the result if the price we set is actually below a true market price? (*We have a shortage.*) How do we eliminate the shortage? (*Possibly raise our prices.*)



## Teaching Tips

- It is not difficult to lower the price during a selling period. However, customers are likely to get upset if you raise prices during the selling period. Also, previously advertised prices cannot be raised. Since there is usually a significant demand for products in most student businesses, it is probably best to err on the high side, and then cut prices if customers are not buying enough.

## OBJECTIVE 2: *Sell the Products*



## Specific Teaching Activities

- Decide exactly when your products will be sold. ***If you have several selling periods, be sure to hold enough products off the market so that later customers will have something to buy.*** This is especially crucial if the different selling periods take place during the same day.





"Choices . . . choices . . . choices . . .!"

- Choose salespersons. In a bazaar situation, where the students can shop at other booths, have different shifts for salespersons, so everyone gets a chance to shop.
- Teach selling skills. (See Questions to Ask Students below.)
- Develop a sales plan. Salespersons should practice specific techniques before they sell the product. Use the Sales Planning Sheet (Form 4-1) to help.
- To help with later profit calculations keep a record of the type and number of products sold. Use the Sales Revenues Worksheet (Form 5-1) to help you.



### Questions To Ask Students

- What are some of the selling skills salespersons should have? *(To be effective, salespersons should know their product well. They should also know how to attract the customer's attention, make a truthful yet persuasive sales presentation, and ask for a customer decision. Salespersons should always show politeness towards customers.)*
- Why is it important to learn selling skills? *(In a competitive market, businesses must make customers aware of their product, and convince them to buy it. Otherwise customers may buy other products.)*



### Teaching Tips

- Invite a professional salesperson to explain sales to the class. Have the salesperson demonstrate an effective sales presentation.

# Sales Planning Sheet

*Use this form to prepare for selling your product.*

1. What are some of the strengths and weaknesses of our product?

**Strengths**

**Weaknesses**

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2. What can we say or do to get the customer's attention?

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3. What useful information about our product can we share with customers?

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4. What will we say to the customers to get them to agree to buy our product? ie., to "close our sale?"

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# Closing the Business

## CHAPTER GOALS

In this chapter the students close their business. The first goal of the chapter deals with the concept of profit. Students compute their profits, and decide how the profits will be used. The students use profit calculations to help determine whether or not the business has been successful. The class then compiles a final report and makes recommendations for next year's class.

A second goal of this chapter is to give teachers suggestions and ideas for making improvements in future business projects.

CHAPTER

5



## EXPLANATION OF ECONOMICS AND BUSINESS CONCEPTS TAUGHT IN CHAPTER 5

### *Definition of Profit*

Profit is an important and often misunderstood concept in economics. **Profit** is the amount remaining after the costs of production are subtracted from sales revenues. **Sales revenues** are simply the proceeds from sales—the amount of products sold times their price. The concept of cost, however, can have different connotations. Economists define **costs** as *all* the costs of production, including the opportunity costs of using a firm's productive resources in their best alternative use. When costs are defined in this inclusive way, profit is referred to as **economic profit**.

However, businesses normally use only the **explicit** costs of production (labor, materials, rent, interest, etc.) when computing profit. The opportunity costs of productive resources are typically not included in calculations. This more narrow definition of profit is called **accounting profit**. However, to make informed production decisions, businesses must take into account all the opportunity costs of their productive resources.

### *Role of Profit in a Market Economy*

Profit performs several crucial functions in a market economy. First, profit is an **incentive**. Without the possibility of profit, entrepreneurs would not risk investing their savings to produce goods and services for consumers. Second, profit is a **signal** that communicates what goods and services consumers want most. For example, if computer producers are earning high profits, this shows that there is high demand for computers relative to their supply. Producers and entrepreneurs anxious to make profits will use their productive resources to supply more computers, thus meeting the high demand. Third, profit is a **reward**. Profit rewards those risk-taking entrepreneurs who perceive consumer wants and who satisfy those wants most efficiently.

### *Distributing Profits*

The owners of a business decide how to use any profits. Corporations, which are owned by stockholders, frequently distribute profits to the stockholders in the form of **dividends**. Sometimes the board of directors of a corporation decides not to distribute dividends. Instead, the board may decide to invest profits to expand production. In this case, profits are the source of **business savings**.

Producers (businesses) as well as consumers confront the concepts of *scarcity* and *opportunity cost* when making decisions. Business savings are limited, but the possible uses of those savings are virtually unlimited. A business that decides to use its scarce business savings to finance the production of a certain product, must forego using the savings to finance the production of another. Because of scarcity, every decision has an opportunity cost.

## GOAL 1—MAKING DECISIONS ABOUT PROFIT

In this section the students close their business. First, they compute how much profit their business made. Then, they decide what to do with their profits. Finally, the students determine whether or not the business was really worth their time and effort. Should next year's class undertake the project? The students prepare a final report which makes recommendations and suggestions for next year's class.

### *Teaching Objectives for Goal 1*

#### **OBJECTIVE 1: *Compute Profits***



"Our store is doing great!"



## Specific Teaching Activities

- Teach the concept of profit. Point out that any money invested by stockholders is not part of the profit, but must be returned to stockholders, along with any dividends.
- Discuss how to compute profits. Use the Sales Revenues Worksheet (Form 5-1) and the Profit Worksheet (Form 5-2) to help you. You will need to complete a revised Product Cost Computation Sheet (Form 2-6) from Chapter 2 in these computations. Compare your **actual** profit to the profit **estimate** you made in Chapter 2 (Objective 4). Was there a difference? Discuss why.

**FORM 5-1**

**Sales Revenues Worksheet**

<b>Item</b>	<b>Price</b>	<b>Quantity Sold</b>	<b>Sales Revenues</b>
		<b>Sales Revenues from all Items</b>	



**FORM 5-2**

**Profit Worksheet**

Total Sales Revenue (from Form 5-1) \_\_\_\_\_

*minus* Total Costs (use Form 2-6) \_\_\_\_\_

**BEFORE TAX PROFIT** \_\_\_\_\_

Tax on Profits (if any) \_\_\_\_\_

**AFTER TAX PROFIT** \_\_\_\_\_



## Questions to Ask Students

- What is profit? *(The amount remaining after subtracting costs from revenues)*
- Why is profit important in our economy? *(Profit performs three important functions: it is an incentive to producers, it is a signal identifying the goods and services that consumers want most, and it is a reward for successfully satisfying the consumer.)*
- If a business consistently makes high profits, what does this show? *(It shows that the business does a good job providing what consumers wanted, and that the business produces the product efficiently i.e., with low costs.)*



"Tired, but happy—these storekeepers are almost sold out!"



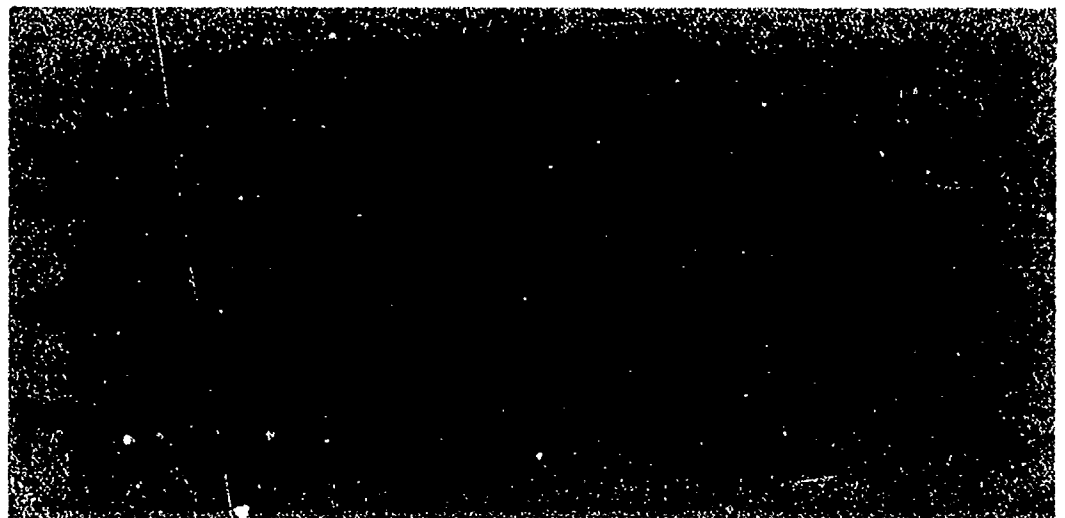
## Teaching Tips

- There is sometimes competition among classes or groups of students to see which business can earn the most profit. You

should probably discourage this. One reason is that donated materials make it very difficult to compare costs. For example, a class may make the most profit only because raw materials and outside expertise were donated, not because the class was especially skillful with their business.

- To add a dose of realism, some teachers require the business to pay a corporate income tax. The tax is usually paid to the school.

## **OBJECTIVE 2: *Decide How to Use Profits***



### **Specific Teaching Activities**

- Use the Balance Sheet (Form 5-3) to help determine how to distribute money that the business now has on hand. This money includes any profits plus the original money used to start the business (from stockholders, bank loans, or personal savings). If your business is owned by stockholders, first decide what dividends will be distributed to stockholders. Give stockholders back their original investment plus the dividend payment. (See Teaching Tip a.) Repay any bank loans, including interest.
- Completing the balance sheet requires careful decision-making. Remind students that since profits are scarce, they will have to choose among several alternative uses. Two possible alternatives are gifts to charity and setting aside savings to start next year's business. (See Teaching Tip b.) This is an excellent opportunity to use the decision-making model from Chapter 2. Remind students that there is an opportunity cost to their final decision.

**FORM 5-3**

**Balance Sheet**

**Total Cash on Hand**  
(from profits, stock sales, loans, etc.) \_\_\_\_\_

**Distributions**  
Paid to Stockholders  
(Including dividends) \_\_\_\_\_

Paid to Bank (Including interest) \_\_\_\_\_

Saved for Next Year's Business \_\_\_\_\_

Gift to School or Charity \_\_\_\_\_

Other Distributions, if any \_\_\_\_\_

**TOTAL DISTRIBUTIONS** \_\_\_\_\_

**AMOUNT LEFT FOR CLASS TO USE**

**TOTAL CASH ON HAND** \_\_\_\_\_

**minus TOTAL DISTRIBUTIONS** \_\_\_\_\_

**FOR CLASS TO USE** \_\_\_\_\_



## Questions to Ask Your Students

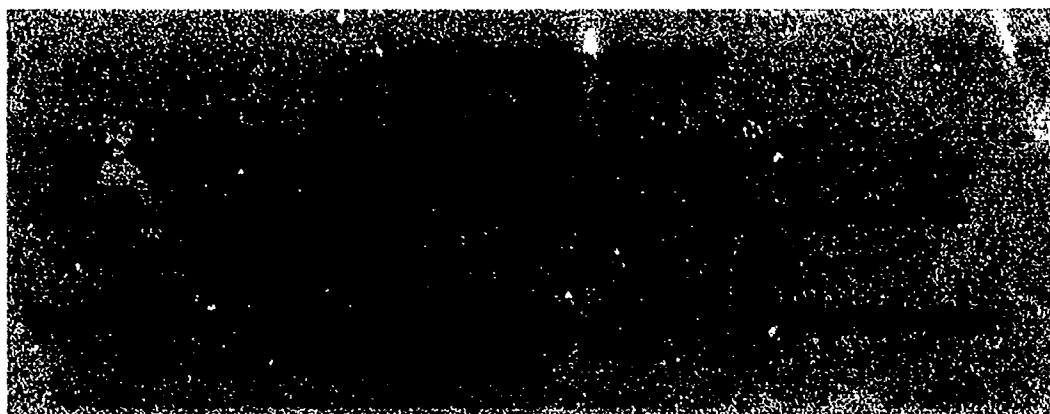
- What are dividends? (*The part of our profit that we distribute to stockholders*)
- What scarcity problem do we have? (*We have many possible uses for limited profits.*)
- Because of the "scarcity" of profits, what must we do? (*Choose among various alternatives.*)
- What is the opportunity cost of our choice? (*The best combination of alternatives that we did not choose.*)



## Teaching Tips

- To avoid having to distribute all profits to stockholders, give a maximum five percent or ten percent per share dividend. Keep the rest for the class. To be fair, when you issue the stock you must tell investors that there will be a maximum return on their investment. This is still a good deal. A five percent return from a month long investment translates into 60 percent a year!
- You may want to require the class to save a certain percentage of the profits to help finance next year's business project. This encourages the class to help next year's students, and illustrates how profits are the source of business savings to finance future business operations. Some teachers also encourage or require the class to give a percentage of the profits to a charity or to the school.

## OBJECTIVE 3: *Make a Final Report*





## Specific Teaching Activities

- Discuss whether or not the business project was worth doing.
- Prepare a report for next year's class. This makes an excellent language arts project. Let each student provide some input to the report, which could include the following information:

*A summary of the business project describing key features such as market surveys, business organization, raising funds, production and marketing strategies.*

*Photographs of business activities.*

*Copies of completed forms and financial records.*

*Things to do differently next year.*

*Amount of profits left to help start next year's business.*

*Final recommendations.*



## Questions to Ask Students

- There were many things we could have done with our time and productive resources besides a business project. What are some of these things? *(Answers will vary. Possible examples include: a science project, more worksheets, a play, reading more books, etc.)*
- Why didn't we do all these things? *(Scarcity! Our time and resources were scarce.)*
- Because of scarcity, what did we have to do? *(Make a choice)*
- What was the opportunity cost of our choice to use our productive resources to do a business project? *(What we would have gained/learned by doing one of the other activities)*
- Was the business project worth the opportunity cost? What do you recommend for next year's class? *(Answers will vary, but most students will think that the business project was worth the opportunity cost. Use this question to introduce the idea of compiling a final report with recommendations for next year's class.)*



## Teaching Tips

- In the final report encourage students to use economics and business vocabulary words they have learned.
- This final report can be made easily into an "Annual Report" for stockholders.
- Consider submitting your annual report to your local Chamber of Commerce. Ask if your class can become a "junior member."

## **GOAL 2—PRACTICAL CONSIDERATIONS**

The format of this section is different from the preceding ones. It lists practical suggestions and ideas for improving future business projects.

1. While the project is still fresh in your mind, make a list of things that you could do differently. Also list other creative ideas that you could do next year. Brainstorm these ideas with your students.
2. Think of other teachers to involve next year. Show them your class's final report. Explain how the business project touched all aspects of the curriculum. Show the report to the principal and to other community members who helped you.
3. Consider expanding your project into a school fair or bazaar. Each classroom can form a business and set up a store on the day of the fair. Several school corporations in Indiana have done this. Technical assistance and possible funding are available from the Indiana Department of Education. See Comment 8 below.
4. Get some media coverage. Local newspapers are usually very interested in these types of projects.
5. Ask parents what they thought about the project. Send a simple evaluation form home with your students. Ask parents for suggestions for improving the project.
6. Try to present your project to other teachers in workshops or inservice settings. There are frequently inservice or workshop opportunities for these types of presentations. This is one reason to take slides of project activities.
7. Attend an economics education summer workshop for teachers. Workshops are offered at universities throughout Indiana. There is normally no cost to you for tuition, and participants earn up to three hours of graduate credit. For more information, contact the Indiana Council for Economic Education, Krannert Center, Purdue University, West Lafayette, Indiana 47907, (317) 494-8545.
8. Monies are available on a competitive basis through the Indiana Department of Education for public school teachers who wish to initiate or expand economic education programs. For more information about the Economics Education Mini-Grant program, contact the economics



education consultants below. The consultants serve educators on a regional basis, and will answer any questions you may have about economic education.

**Northern**

Harlan R. Day  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8542

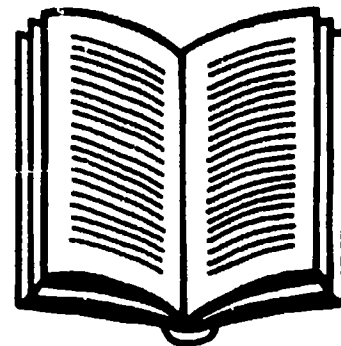
**Southern**

David Ballard  
Wilson Education Center  
630 Meigs Avenue  
Jeffersonville, IN 47130  
(812) 288-4825



"Come on—buy something from us!"

# ANNOTATED BIBLIOGRAPHY OF CURRICULUM MATERIALS



Many of the following economic education curriculum materials were referenced in *Economics and Entrepreneurship*. Most can be borrowed on a free loan basis from university centers of economic education throughout Indiana. For more information contact the Indiana Council for Economic Education, Room 222, Krannert Center, Purdue University, West Lafayette, IN 47907. Telephone (317) 494-8540.

## **The Book Company**—Prepared by the Washington Council for Economic Education

In this completely integrated primary economic education unit and software package, students create and operate their own book company. While emphasizing economic principles the unit integrates creative writing, math, and art. Approximate cost \$150 (Revised 1986).

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

## **Business Basics**

*Business Basics* is an economic enrichment program designed for fifth or sixth grade students. Selected high school or university students who have participated in the Junior Achievement Program or the Applied Economics class teach economics and business lessons through discussion, hands-on activities, and role playing. For further information contact:

Junior Achievement  
Business Basics Program Director  
1317 North Pennsylvania Street  
Indianapolis, IN 46202  
(317) 634-3519

## **Choices and Changes**

This unique program teaches students at different grade levels (3,5,7, and 9) how to play a productive role in the economy. Students learn economic principles which stress decision-making, investing in oneself, and the interaction of the individual with the economy. Teaching units emphasize the link between effort, performance, and rewards.

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

## **The Community Publishing Company**

Third and fourth grade students do a wide range of motivating activities while exploring their community and forming their own publishing

company. The activities emphasize basic skills in several subject areas. Cost of teacher resources manual is \$56. A set of 10 student activity books cost \$60 (1989).

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

### **Disney's Wide World of Economics and Enterprise**

This five-part filmstrip/cassette kit introduces elementary students (Grades 3-6) to the world of business. In the stories, Huey, Dewey, and Louie learn the basics of business, including start-up costs, meeting consumer needs, expanding a business, and selling stock. The kit includes a 'Build a Business' game and 25 'Mickey and Goofy Explore Business' comic books. Available on loan from the Indiana Council for Economic Education. Cost \$165 (1978).

Walt Disney Education Media  
Distributed by Coronet-MTI-LCA Film and Video  
108 Wilmot Road  
Deerfield, IL 60015  
(800) 621-2131

### **Econ and Me**

This five part video series is for students ages 7-10. It teaches the concepts of scarcity, opportunity cost, consumption, production, and interdependence. The teacher's manual contains many math and language arts-integrated economics teaching activities. Available on a free loan basis from the Indiana Council for Economic Education and its affiliated centers. Can be purchased through Purdue University for \$45 (1989).

Indiana Council for Economic Education  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

### **Elementary Economist/Economics for Kids**

This publication, published three times each year, explains basic economics concepts and highlights K-6 teaching activities which teach the concepts. Volume 7, Number 1, deals exclusively with the concept of entrepreneurship. Cost \$15 for a one year subscription. Issues may be purchased separately.

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

### **Famous Amos: Business Behind the Cookie**

This interesting video explains how one entrepreneur's idea to start a small chocolate chip cookie store grew into a multimillion dollar business. Key individuals in the company explain their jobs and how the company grew. Excellent for intermediate and middle school students. Available on a free loan basis from the Indiana Council for Economic Education.

Indiana Council for Education  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

**A Framework for Teaching the Basic Concepts—Phillip Saunders, G.L. Bach, James Calderwood, W. Lee Hansen**

This booklet clearly summarizes basic economic concepts. It is very helpful for teachers who have not had much formal training in economics. Approximate cost \$13 (1984).

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

**Free Enterprise at Work**

This video/film for upper elementary and secondary students shows entrepreneurs from all walks of life. In an interesting and understandable manner, they explain how they started their businesses. Available on loan (film only) from the Indiana Council for Economic Education. List price is \$365 for video, but call for possible school discounts (1985).

WRI Education  
P.O. Box 9359  
San Diego, CA 92109  
(800) 972-3635

**Give and Take**

This 12-part film/video series is designed for junior high but can be used selectively at the upper elementary level. Each 15-minute film covers a specific economic topic. The teachers manual contains student worksheets. Available on a free loan basis. Can be purchased through Purdue University for \$32.

Indiana Council for Economic Education  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

**"I Can Do It"—From The American Entrepreneur Series**

Each of these three videos focuses on the life of an individual entrepreneur—Ed Lewis, Judi Wineland, or Stew Leonard. Students discover the nature, challenges, and rewards of entrepreneurship by learning how these individuals started their own businesses. Cost for all three videos on one cassette \$95 (1986).

Direct Cinema Limited  
P.O. Box 69589  
Santa Monica, CA 90410  
(800) 525-0000

### **In the Marketplace Series**

#### **Level B: Lesson Plans in Economics (Formally entitled *Children in the Marketplace*)**

These eight comprehensive lessons provide teachers with a variety of classroom tested activities for teaching concepts to third and fourth graders. Lessons come in a three ring binder with blackline masters for students. 96 pages. Approximate cost \$11 (1986).

#### **Level C: Lesson Plans in Economics**

These nine comprehensive lessons on the world economic community are designed for middle school students. The lessons especially stress resources, trade, and interdependence. Blackline masters for students are included. 136 pages. Approximate cost \$22 (1990).

#### **It's Our Business—Prepared by the Foundation for Teaching Economics**

This instructional package for Grades 7-10 consists of ten lessons and a 15 minute video program. Students explore how businesses relate to four constituent groups: customers, employees, business owners, and the community. Each of the ten lessons is designed for a 45-50 minute class period. Approximate cost \$45 (1990).

**MERC**  
3620 Swenson Avenue  
P.O. Box 8002  
St. Charles, IL 60174-8002  
(800) 627-7646

#### **Learning Economics Through Children's Stories, Fifth Edition— Robert H. Hendricks, Andrew T. Nappi, George G. Dawson, Mindy M. Mattila**

This booklet gives suggestions for using children's stories to teach basic economics concepts. A bibliography listing many children's books that can be used to teach economics is provided. Approximate cost \$10 (1986).

**Joint Council on Economic Education**  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

#### **Lifegames—Saul Z. Barr**

This popular booklet describes 80 activity-centered economics lessons for primary children. The booklet emphasizes four themes: Goods and Services, Specialization and Jobs, Productive Resources, and Money and Banking. Out of print, but available on a free loan from the Indiana Council. (1985).

**Indiana Council for Economic Education**  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

## **Master Curriculum Guide (MCG) Series: Strategies for Teaching Economics**

Primary Level (Green)

Intermediate Level (Gold)

Middle School/Junior High Level (Dark Green)

Using Economics in the Social Studies Methods Course (Purple)

These booklets contain many different teaching activities covering a wide variety of economic concepts. Approximate cost \$11 each.

Joint Council on Economic Education  
432 Park Avenue South  
New York, NY 10016  
(800) 338-1192

### **Minding Ms. B's Business**

This student workbook challenges students in Grades 4-6 to plan and open their own business. It introduces students to the fundamental questions and tasks of entrepreneurship in a simple and easy to understand manner. The booklet uses an integrated skills approach. 44 pgs. Cost \$5. Classroom package of 25 copies and Teacher's Guide \$45 (1989).

National School Committee for Economic Education  
86 Valley Road, Box 295  
Cos Cob, CT 06807  
(203) 869-1706

### **The National Federation of Independent Business (NFIB) Foundation Materials**

The NFIB has produced many print materials about small business and entrepreneurship. The materials are free or can be obtained at a very reasonable cost. Contact the NFIB to receive a list of these materials.

The NFIB Foundation Suite  
700 600 Maryland Avenue Southwest  
Washington, D.C. 20024  
(202) 554-9000

### **Oak Lane Tales**

In this video series of nine 15-20-minute lessons, animal characters in the community of Oak Lane live, work, and play together to illustrate various business and economic concepts. The series is not animated, rather, it is a filmstrip in video format. Best for Grade 2-4. Approximate cost of complete set \$595. Individual lessons cost \$99. Call WRI for possible school discounts (1986).

WRI Education  
P.O. Box 9359  
San Diego, CA 92109-0109  
(800) 972-3635

### **Play Dough Economics**

This booklet contains 15 motivating economics lessons for elementary and middle school students. In each lesson students use play dough to help

them learn the concepts. Free to Indiana teachers. Cost for out-of-state orders is \$5 (1988).

Indiana Department of Education  
Office of School Assistance  
Room 229, State House  
Indianapolis, IN 46204-2798  
(317) 232-9141

### **Teaching Economics in the Mini-Economy**

This booklet introduces teachers to basic economic concepts and tells how to apply them in the context of a classroom mini-economy. Free to Indiana teachers. Cost for out-of-state orders \$5 (1988).

Indiana Department of Education  
Office of School Assistance  
Room 229, State House  
Indianapolis, IN 46204-2798  
(317) 232-9141

### **Trade-Offs**

These fifteen 20-minute film/video programs cover many basic economic concepts for upper elementary students. Decision-making skills are stressed throughout the series. Available on a free loan basis. Can be purchased through Purdue University for \$45 (1978).

Indiana Council for Economic Education  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

### **Ump's Fwat Materials**

This series of motivating materials introduces elementary students to the world of economics and business. The materials include an *Ump's Fwat Annual Report*, in which eight economic principles are developed; an accompanying eight-minute, fully animated video adventure, complete with cavemen, wolly mammoths, and facts about the free enterprise system; and a *Baseball Game*, which introduces students to the market economy through the buying and selling of baseballs.

*Ump's Fwat Annual Report*: 1-5 copies free, 6 or more copies \$.50 each (1989)

*Ump's Fwat Instructor's Guide*: Cost \$2

*The Ump's Fwat Video*: VHS cost \$24.95 (1989)

*The Baseball Game*: Cost \$7

Academy for Economic Education  
125 Sovran Center  
Richmond, VA 23277  
(804) 264-5851

### **Understanding Economics: Overview for Teachers, Experiences for Students.** —Marilyn Kourilsky

This book explains basic economic concepts and provides activities and simulations. It also presents mini-lessons based on economic "fables" to motivate students. Approximate cost \$9 (1983).



Addison-Wesley School Division  
1843 Hicks Road  
Rolling Meadows, IL 60008  
(800) 535-4391

### **Winnie the Pooh and the Value of Things**

This popular six-part series teaches simple economic concepts applicable to the primary curriculum. Approximate cost \$199 for filmstrip cassette teaching kit. Cost for filmstrips on VHS video \$99 (1977).

Walt Disney Educational Media Company  
500 South Buena Vista Street  
Burbank, CA 91521  
(800) 621-2131

### **The Wizards of Sound**

This motivating video shows a field trip to CBS Records Headquarters taken by a class of junior high students. Students view all aspects of the recording business as they listen to key personnel who work for the company. Ideal for middle school students. Produced by Junior Achievement. Available on a free loan basis from the Indiana Council for Economic Education. 22 minutes (1989).

Indiana Council for Economic Education  
Krannert Center, Room 222  
Purdue University  
West Lafayette, IN 47907  
(317) 494-8540

### **You Choose—Marilyn Szymaszek**

This motivating booklet introduces primary students to a variety of concepts, including market economy, profit, productivity, price, and productive resources. Students activities are included. Approximate cost \$3.50. Cost of classroom set of 25 booklets \$40 (1982).

National School Committee for Economic Education  
86 Valley Road, Box 295  
Cos Cob, CT 06807  
(203) 869-1706



# APPENDIX A

## *Test on Economic and Business Concepts*

# Pre/Post Test for Economics and Entrepreneurship

Name \_\_\_\_\_ Date \_\_\_\_\_

## Part I

1. **Directions:** Fill in the blanks with the **best** answer. Use the words in the box. No word is used twice. Some words are not used at all.

dividend	risk	producer	criteria	entrepreneur
opportunity	markets	consumers	interest	capital
cost good	supply	profit	employees	wage
service	demand	surplus	managers	interest

Businesses produce things that \_\_\_\_\_ want. A thing that a business produces that you can touch is called a \_\_\_\_\_.  
When a business does something for you, it provides a \_\_\_\_\_.

The \_\_\_\_\_ is a person who takes a risk to organize and start a business. The main goal of this person is to earn a \_\_\_\_\_.  
Businesses are not always successful. This shows that there is always \_\_\_\_\_ involved when starting a business.

Anyone starting a business must make many decisions, including what to produce. The important things one must consider when making a decision are called \_\_\_\_\_.  
Anytime a decision is made there are always alternatives that are not chosen. The best alternative not chosen is the \_\_\_\_\_.

## Part II

1. The three basic kinds of **productive resources** are:

\_\_\_\_\_

2. **Directions:** In the blanks in the left column below write the names of four **productive resources** shown in the picture. In the blanks in the right column identify the basic kind of resources (use your answers in 1. above).



**Name of Productive Resource**

**Kind of Productive Resource**

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**Part III**

1. Circle the things below that are **costs** of running a business.

wages

rent

revenues

interest on loans

profits

materials

stock

equipment

2. What is profit? \_\_\_\_\_  
 \_\_\_\_\_

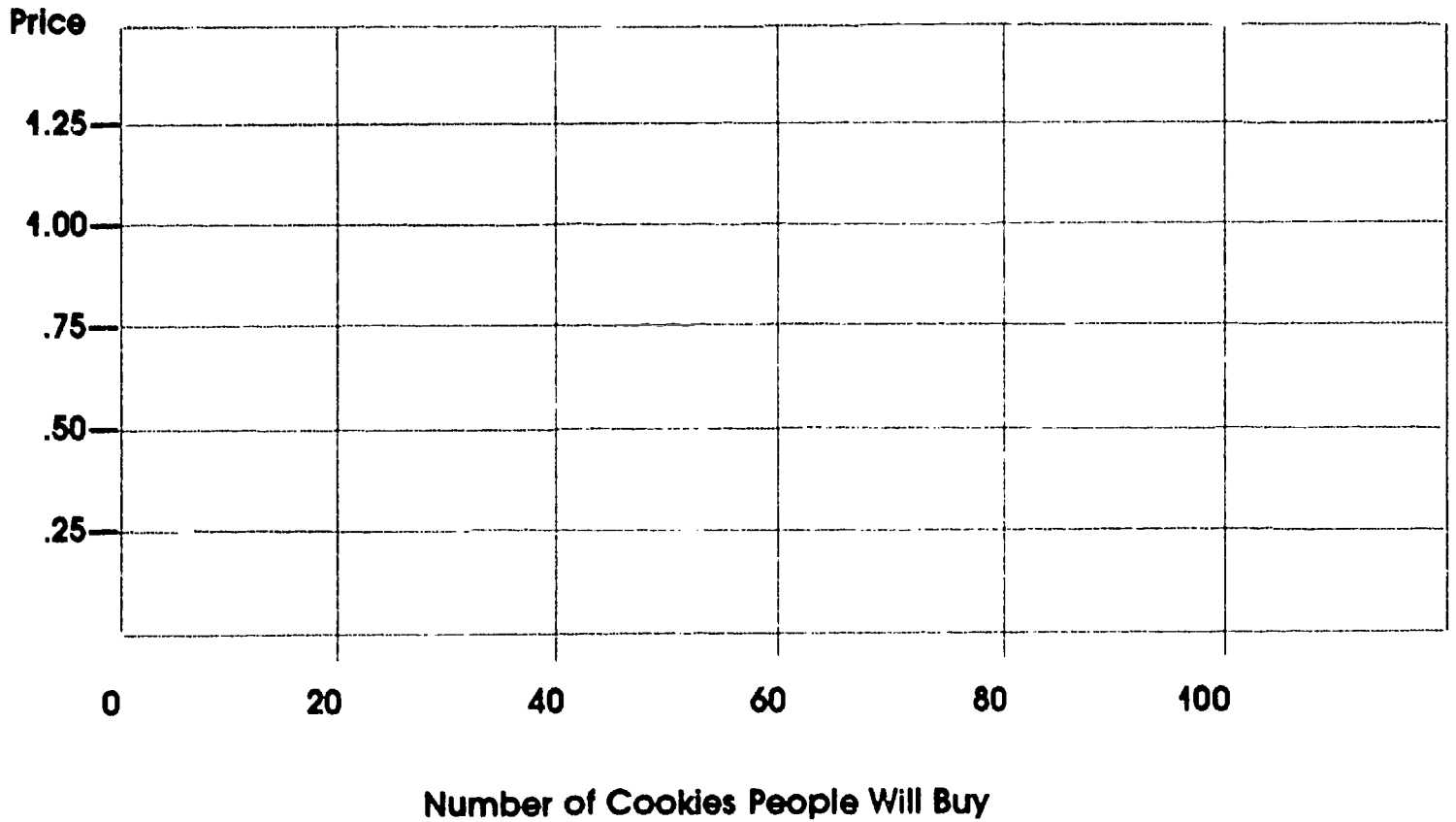
**Part IV**

1. Below are the results of a market survey Mrs. Green's class took. The class is selling cookies.

Price	Number of Cookies People Would Buy
\$1.00	5
\$.75	10
\$.50	30
\$.25	90

Using the results of the market survey, graph the demand for cookies.

*Demand for Cookies*



2. What would be the **sales revenues** at a price of \$ .50? \_\_\_\_\_
3. At what price would **sales revenues** be the **greatest**? \_\_\_\_\_
4. What does the **Law of Demand** tell us? \_\_\_\_\_

## Part V

**Directions:** Fill in the blanks with the **best** answer. Use the words in the box. No word is used twice. Some words are not used at all.

business savings	corporation	employees	firm
savings account	loan	equity	profits
managers	partnership	stock	interest
sole proprietorship	shortage	surplus	cost
purchasers	investors	borrowers	dividends

Businesses have several types of ownership. A business that is owned by one person is a \_\_\_\_\_ . A business owned by at least two persons is a \_\_\_\_\_ . A business owned by many stockholders is a \_\_\_\_\_ .

Businesses hire \_\_\_\_\_ to work and earn wages. Individuals hired by businesses to help run the business and to make important decisions are called \_\_\_\_\_ .

Businesses must raise money to start or operate a business. To do this, some businesses issue \_\_\_\_\_ . Some businesses borrow money from the bank by taking out a \_\_\_\_\_ . They must pay the bank \_\_\_\_\_ for borrowing the money. Businesses also can use past \_\_\_\_\_ to get money to expand the business.

Businesses often pay \_\_\_\_\_ to individuals who have purchased stock in the business.

## Part VI

**Directions:** Below is the final accounting information about Mrs. Green's class's cookie business.

Sales Revenues	—	\$ 230
Cost of Materials	—	\$ 25
Costs of Labor	—	\$ 30
Costs of Buying Tools	—	\$ 15
Interest on Loan	—	\$ 5

1. What accounting profit did the class show? \_\_\_\_\_

## Part VII

1. What is the difference between unit production and assembly line production?

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2. Why is labor productivity greater on an assembly line than with unit production?

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## Part VIII

**Directions:** Fill the blanks with the best answer. Use the words in the box. No word is used twice. Some words are not used at all.

supply	capital	shortage	marketing	efficiency
demand	produce	costs	dividends	scarcity
promotion	advertising	surplus	packaging	purchasing

Everything that a business does to get products to the consumer is called \_\_\_\_\_ . Businesses use \_\_\_\_\_ to provide information to consumers in order to increase the \_\_\_\_\_ for their products.

Businesses make their products attractive to the consumer by using special \_\_\_\_\_ .

A \_\_\_\_\_ is a special activity to get consumers interested in a product.

If a business charges a price that is much too high there will be a \_\_\_\_\_ of products. If a business charges a price that is much too low there will be a \_\_\_\_\_ of products.

**Part IX**

1. What is opportunity cost? \_\_\_\_\_

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

2. Explain how a business has to consider opportunity cost when making a decision what is produce. Give an example in your explanation. \_\_\_\_\_

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2.  $.50 \times 30 = \$15.00$
3.  $.25$  (since  $.25 \times 90 = \$22.50$ )
4. The Law of Demand tells us that people will buy less as the price of a product rises, and will buy more as the price of a product falls.

#### **Part V**

Sole proprietorship, partnership, corporation, employees, managers, stock, loan, interest, business savings (or profits), dividends.

#### **Part VI**

1. Profit equals sales revenues minus total costs. Therefore, profit equals  $\$230 - \$75 = \$155$ . (In this question only explicit accounting costs are computed. The value of foregone opportunity costs is not considered.)

#### **Part VII**

1. In unit production one worker basically produces the complete product. In an assembly line workers specialize and divide the labor, each worker repeating one specific task.
2. Because workers specialize and divide the labor, they can produce more per hour. Specializing allows workers to concentrate on one specific task.

#### **Part VIII**

marketing, advertising, demand, packaging, promotion, surplus, shortage

#### **Part IX**

1. Opportunity cost is the value of the best alternative when making a decision. That is, it is the value of your next best choice.
2. Businesses must consider opportunity cost because there are many different uses for productive resources. If a business uses these resources to produce one product it cannot use them to produce another. For example, a building used to produce pizzas cannot be used as a bicycle repair shop. If these were the best uses for the building, then using the building for a bicycle repair shop is the opportunity cost of a decision to open a pizza restaurant.



# TEST ANSWERS

## Part I

consumers, good, service, entrepreneur, profit, risk, criteria, opportunity cost

## Part II

1. Land (natural resources), Labor (human resources), capital

2. Name of possible:

Productive Resource	Kind of Resource
barber	labor
barber chair	capital
water	land
clippers	capital
building	capital
scissors	capital

*Students may notice other resources.*

## Part III

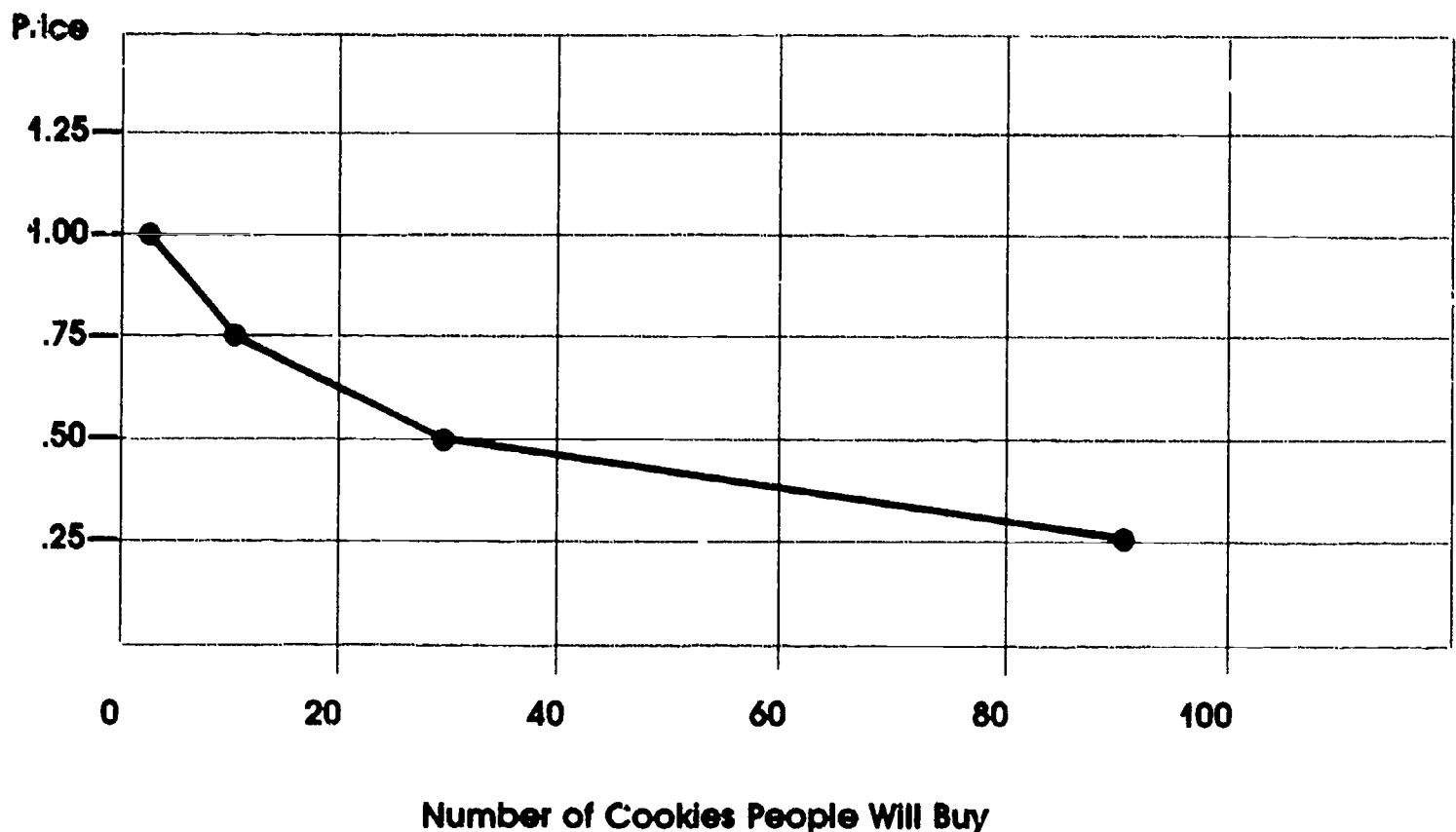
1. Wages, rent, materials, interest on loans, equipment

2. Profit is the money left over after subtracting costs (business expenses) from sales revenues (income).

## Part IV

1.

### *Demand for Cookies*



## APPENDIX B

### *Attitude Survey Towards Economics and Business*

# Attitude Survey

*Please respond to the statements below. For each statement circle one number. Circling 1 means that you strongly agree with the statement. The higher the number you circle, the more you disagree with the statement. Circling 5 means that you strongly disagree with the statement.*

	<b>Strongly Agree</b>					<b>Strongly Disagree</b>
1. Owning a business is an easy job.	1	2	3	4	5	
2. Economics and business are important subjects.	1	2	3	4	5	
3. Economics is one of my favorite subjects.	1	2	3	4	5	
4. Our economy needs new businesses.	1	2	3	4	5	
5. The government should tell people how to spend their money.	1	2	3	4	5	
6. Most people who do not have jobs are lazy.	1	2	3	4	5	
7. The government should make businesses pay more taxes.	1	2	3	4	5	
8. Businesses make too much money.	1	2	3	4	5	
9. The government should tell businesses what prices to charge for products.	1	2	3	4	5	
10. In the future I want to own and run a business	1	2	3	4	5	