

The Economic Way of Thinking

Introduction

Often, when you talk to a friend or relative, you learn about situations that make you scratch your head and ask, "Why would a person do this?" Here are some examples:

- A college student runs up \$30,000 in credit card debt.
- A store marks down summer jackets from \$300 to only \$39.95 in October.
- Voters defeat a plan to finance a football stadium with property tax revenues.

Unlocking the secrets of these situations might be easier if you applied the economic way of thinking to determine WHY people act the way they do.

In this lesson, you will learn how to use the economic way of thinking, a process that can help you understand why people save, borrow, and spend the way they do. It will also help you make wise money decisions by examining the way you think and act.

Vocabulary

Consequence: The result or effect of a person's behavior.

Incentive: A reason or reward that motivates people to behave in predictable ways.

Opportunity cost: The next-best alternative that is given up when a choice is made.



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Every Choice Has an Opportunity Cost

Because of limited resources and unlimited wants, people have to make choices. Every choice has an opportunity cost. In each situation below, a person must make choices because time, space, and money are limited. Below each description, list the person's alternatives, the choice, and the opportunity cost.

1. Shaundra's mother's birthday is coming up. Shaundra would like to buy her mom a necklace, but the one she likes costs more than she has saved. What are Shaundra's alternatives? What will she do? What is her opportunity cost?

Alternatives _____

Choice _____

Opportunity cost _____

2. Angelo wants to put a 50-gallon aquarium in his room. When he measured the room, Angelo discovered that he wouldn't have enough space for his flat screen TV and the aquarium. What are Angelo's alternatives? What will he do? What is his opportunity cost?

Alternatives _____

Choice _____

Opportunity cost _____

3. Raul has raised \$200 for a local charity. If he raises \$15 more, he will be eligible for a raffle for a new computer. The raffle is tomorrow. What are Raul's alternatives? What will he do? What is his opportunity cost?

Alternatives _____

Choice _____

Opportunity cost _____

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Choosing the Better Incentive

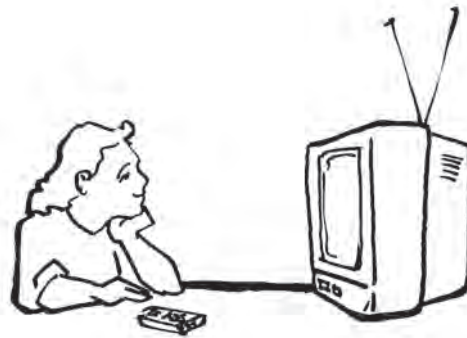
This activity focuses on price, a powerful monetary incentive. Working with a partner, evaluate the pairs of coupons for the eight purchases below and, for each pair, choose the coupon that provides the greater cost savings. Then give the reason for your decision.

1. Book bag \$29.99 (buy one) The better incentive is coupon # _____ The reason is: _____ _____	1. Coupon: 20% off
	2. Coupon: Save \$5.00

2. Snappy-Krunch Cereal \$2.99 per box (buy three boxes) The better incentive is coupon # _____ The reason is: _____ _____	1. Coupon: Buy 2, Get 1 Free!
	2. Coupon: Save \$1.50 per box

3. Super-Nutty Peanut Butter 32 oz. jar for \$2.56 or 48 oz. jar for \$2.99 (buy two jars, either size) The better incentive is coupon # _____ The reason is: _____ _____	1. Coupon: Buy a 32 oz. jar at regular price, get another free!
	2. Coupon: Save \$0.50 on each 48 oz. jar

4. Soccer shoes \$69.95 a pair (buy two pairs) The better incentive is coupon # _____ The reason is: _____ _____	1. Coupon: Buy one pair, get another at half price!
	2. Coupon: Two pairs for \$100.00



<p>5. Amusement park All day admission ticket \$45.00 (buy 6 tickets)</p> <p>The better incentive is coupon # _____ The reason is: _____ _____</p>	<p>1. Coupon: \$5 off each ticket (limit 6) when you buy a case of root beer at \$9.99 a case</p>
	<p>2. Coupon: Buy 5 tickets at regular price, get the 6th one FREE</p>

<p>6. Scary movie festival \$8.00 each night for 6 nights (attend all 6 nights)</p> <p>The better incentive is coupon # _____ The reason is: _____ _____</p>	<p>1. Coupon: 4 nights at regular price: half price the next 2 nights</p>
	<p>2. Coupon: 5 nights at regular price - 6th night FREE</p>

<p>7. Pizza \$18.99 (buy 2 pizzas)</p> <p>The better incentive is coupon # _____ The reason is: _____ _____</p>	<p>1. Coupon: Save \$2.00 on each pizza. Limit 2</p>
	<p>2. Coupon: Today only: 2 pizzas \$35.00</p>

<p>8. Video game \$49.99 (buy 3 games)</p> <p>The better incentive is coupon # _____ The reason is: _____ _____</p>	<p>1. Coupon: Rebate \$14.00 each. Limit two.</p>
	<p>2. Coupon: Save 20% no limit</p>

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Using the Economic Way of Thinking

Directions: Read about the dance at Susan B. Anthony Middle School. Then respond to the questions.

Susan B. Anthony Middle School's Honor Society was planning a dance. A music committee decided to use a video-sound show for the dance, even though its price was \$300 higher than the local DJ's price. By paying for the video-sound show, the committee members believed they could attract more students to attend the dance.

When the big night arrived, 250 students from a class of 300 attended the dance. It was the best rate of attendance any school dance had ever attracted. The Honor Society was pleased with the results of the fundraiser.

Questions

1. The committee could not choose both the DJ and the video-sound show. Why not? What was limited?

2. What did the committee choose?

3. What was the incentive for its choice?

4. What was the opportunity cost?

5. What were the costs and benefits of the choice?

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The Economic Way of Thinking

A. Examine the decisions made by the people in the following situations by using the economic way of thinking.

1. Instead of putting an extra \$3,000 in their retirement fund, Florence and Joe decided to fly from Chicago to Florida for a week of golf and relaxation.

- Choice: _____
- Opportunity cost: _____
- Incentive: _____
- Suggest a consequence of their choice: _____

- How did Florence and Joe benefit from their choice? _____

2. Brian and Sheryl paid their credit card bill instead of making a down payment on a new convertible.

- Choice: _____
- Opportunity cost: _____
- Incentive: _____
- Suggest a consequence of their choice: _____

- How did Brian and Sheryl benefit from their choice? _____

3. Su-Zee, Lorena, and their friends went to the beach instead of working at the school book sale last weekend.

- Choice: _____
- Opportunity cost: _____
- Incentive: _____
- Suggest a consequence of their choice: _____

- How did Su-Zee, Lorena, and their friends benefit from their choice? _____

B. Use the economic way of thinking to explain “Why math teachers give homework every day.” Consider that the teacher will have to correct the homework, and will have less time for other activities. Think of incentives and consequences for the teacher and the students that result from the teacher giving homework every day.

- Teacher’s choice: _____
- Opportunity cost: _____
- Incentive for making the choice: _____

- Suggest a consequence of the choice: _____

- Who benefits? How? _____
