

PRODUCTION, DISTRIBUTION, AND CONSUMPTION



SOCIAL STUDIES PROGRAMS SHOULD INCLUDE EXPERIENCES THAT PROVIDE FOR THE STUDY OF HOW PEOPLE ORGANIZE FOR THE PRODUCTION, DISTRIBUTION, AND CONSUMPTION OF GOODS AND SERVICES.

PURPOSES

Scarcity and unequal distribution of resources dictate the need for economic systems of exchange, including trade, to improve the well-being of the economy. The role of government in different economic systems varies over time and from place to place, resulting in diverse economic policies. Increasingly, economic decisions are global in scope and require systematic study of an interdependent world economy. A variety of systems have been developed to decide the answers to fundamental questions related to what is to be produced, how production is to be organized, and how goods and services are to be distributed.

QUESTIONS FOR EXPLORATION: HIGH SCHOOL

- ▶ What questions are important to ask about production, distribution, and consumption?
- ▶ What processes are used by governments to make economic decisions?
- ▶ What are different types of economic systems, and how do they function?
- ▶ How do individuals, groups, and institutions deal with market failures?
- ▶ Who decides the most effective allocation of the factors of production (land, labor, capital, and entrepreneurship)?
- ▶ What is the role of technology in economic decision-making?
- ▶ How do economic conditions (e.g., the level of employment, price stability, and distribution of income) impact political and economic systems?
- ▶ How do governments use monetary and fiscal policy to influence the economy?
- ▶ How do fiscal and monetary policies at the national level impact households and businesses?
- ▶ How do trade, global interdependence, and specialization impact local social and economic systems?

KNOWLEDGE

Learners will understand:

- ▶ Scarcity and the uneven distribution of resources result in economic decisions, and foster consequences that may support cooperation or conflict;
- ▶ The causes and effects of inflation;
- ▶ That regulations and laws (for example, on property rights and contract enforcement) affect incentives for people to produce and exchange goods and services;
- ▶ Entrepreneurial decisions are influenced by factors such as supply and demand, government regulatory policy, and the economic climate;
- ▶ The roles of institutions that are designed to support and regulate the economy (e.g., the Federal Reserve, and the World Bank);
- ▶ How factors such as changes in the market, levels of competition, and the rate of employment, cause changes in prices of goods and services;
- ▶ How interest rates rise and fall in order to maintain a balance between loans and amounts saved;
- ▶ How markets fail, and the government response to these failures;
- ▶ Various measures of national economic health (e.g., GNP, GDP, and the unemployment rate).

PROCESSES

Learners will be able to:

- ▶ Ask and find answers to questions about the production and distribution of goods and services in the state and nation, and in a global context;
- ▶ Explain how monetary decisions at the national level (such as the Federal Reserve Bank in the United States) affect households, businesses, and governments;
- ▶ Apply the concepts of marginal cost and marginal benefit to the analysis of social problems;
- ▶ Analyze complex aspects of production, distribution, and consumption, and evaluate the market forces and government policies that affect these aspects;
- ▶ Analyze how the trade off between risk and return is played out in the marketplace;
- ▶ Compare various ways in which countries improve the output of goods and services and increase the level of income earned from producing goods and services;
- ▶ Compare and contrast market economies with other types of economies;
- ▶ Evaluate the possible economic consequences of proposed government policies;
- ▶ Gather and analyze data and use critical thinking in making recommendations for economic policies.

PRODUCTS

Learners demonstrate understanding by:

- ▶ Interpreting media reports about current economic conditions, and explaining in visual formats how these conditions can influence decisions by consumers, producers, and government policymakers;
- ▶ Evaluating proposals for a pollution control ordinance aimed at maximizing economic efficiency; then writing and defending what appears to be the best proposal;
- ▶ Researching and presenting in visual form the varied ripple effects of public policies such as tax laws, environmental and safety regulations, and Federal Reserve Bank decisions;
- ▶ Using available technology to research various perspectives on global issues such as health care, global warming, and immigration, and developing a media presentation to share findings.

SNAPSHOTS OF PRACTICE

Example #1

Clark Charkoudian's economics class has been discussing a recent rise in oil prices. Students are feeling the impact of the rising prices at the gas pump. One student, Renee, describes the rise in oil prices as an increase in inflation. Clark corrects her by reminding Renee that inflation represents the rise in price levels more generally, not just a rise in the price of a particular commodity. He explains that the rise in oil could cause a rise in inflation, but only if it causes other prices to rise. He uses this discussion as a way to introduce the concept of economic indicators that measure the health of an economy. He points out that unanticipated inflation could be a sign of problems in the economy. He explains that as the amount of money in the economy expands faster than the amount of goods and services produced, price levels may increase. This would indicate inflation.

Clark talks about how price levels are measured and introduces the Consumer Price Index. He is aware, however, that the students do not seem to really understand what he is talking about. He asks them if they would like to participate in collecting data in order to determine a teenager consumer price index (TCPI). They perk up, but Juan asks what that means. Clark explains that they can see how inflation is affecting other teenagers around the country. They do this by collecting the prices of products teenagers typically consume. These include fast food, movie downloads, clothes and other items.

A few weeks later, students have canvassed the local community and collected data for a one-month period. They calculate the TCPI and determine that it has changed in a way that reflects an increasing price level over the month. Clark uses this discussion and activity to help his students understand other indicators in the economy. These include the unemployment rate and changes in the Gross Domestic Product, the measure of the economy's performance in terms of all final goods and services made in the nation in a year. Clark assesses learners' understanding through an assessment that includes multiple choice and constructed response questions concerning inflation and the use of data to produce price indexes, and by asking the students to write a paragraph explaining what they learned about economics through the TCPI assignment. In assessing the paragraph, Clark looks for the accurate use of economic terms and accuracy in expressing the economic relationships observed in the assignment.

SNAPSHOTS OF PRACTICE

Example #2

Gayle Meyer's economics class is learning about the role of the U.S. government in developing economic stabilization policies. Gayle is focusing on helping her learners understand fiscal policy. She defines fiscal policy for the students as changes in federal spending or tax levels that influence national levels of output, employment and prices. She explains how fiscal policy can be expansionary or contractionary. The first is intended to increase federal spending or decrease federal taxes, while the second is intended to decrease federal spending or increase federal taxes. Gayle then explains that since the Great Depression and World War II, most economists have accepted the idea that changes in the federal budget (spending, taxes, or both) can have a significant impact on the national economy.*

In order to check students' level of understanding of these concepts, Gayle breaks the class into small groups and instructs them to review and discuss five scenarios, then decide whether the appropriate fiscal policy response is expansionary (E), contractionary (C), or likely to lead to no change (NC). After indicating which policy they believe is most appropriate, the students in each group prepare to present their reasons. The scenarios Gayle presents are:

- ▶ The economy is suffering from its worst slowdown in 30 years. Unemployment has reached 10%. (E)
- ▶ The annual inflation rate is slowing and now stands at 2.5%. (NC)
- ▶ We have some good news and some bad news: The unemployment rate has fallen to the lowest level in a decade, 2.3%. However, inflation has risen to 8%. (C)
- ▶ The unemployment rate remains steady at 11%. (E)
- ▶ The annual inflation rate is 8.5% and rising. (C)

As each group shares its conclusions, Gayle listens for the clarity of the rationales presented, as well as for the accuracy of their conclusions.

Gayle follows this activity with a series of activities intended to have students consider such issues as the political impact of fiscal decisions, concerns about the timing of the implementation of fiscal policies, and the role of automatic stabilizers intended to allow the economy to respond to inflation or deflation without any action by Congress.

The next day, students are divided into groups of three as they play the role of the Council of Economic Advisors. Each team is handed a "Memorandum from the President of the United States," which they review before collaboratively writing a report for the President on appropriate fiscal policy actions, based on the economic data provided in the handout.

MEMORANDUM FROM THE PRESIDENT OF THE UNITED STATES

To: Council of Economic Advisors
Re: Current Economic Problems

I appreciate your willingness to serve during my first term as President, but we have no time to waste. I have received the following economic data and would appreciate your recommendations for policy regarding tax or spending changes.

	Unemployment Rate	Inflation Rate
Last Year	6.2%	2.6%
This Year	8.5%	2.5%
Forecast for Next Year	9.6%	2.3%

Given the information in the table, what is the major economic problem confronting the U.S. economy?

Please summarize your suggested changes in fiscal policy.

Each group presents their conclusions to the class, and Gayle assesses their understanding based on the appropriateness of the description of the problem, and on the rationale for suggested changes in fiscal policy.

* This lesson has been adapted from "Macroeconomics Stabilization Policies and Institutions," in the publication *Focus: Institutions and Markets* by D. Leet, S. Oderzynski, M. Suiter, P. VanFossen, M. Watts and G. Horwich (New York: Council for Economic Education, 2003). The direct link is at <http://store.councilforeconed.org/institutions.html>.