

LESSON 2

What? How? For Whom?

1. FOCUS

Student Objectives

- Define an economic system as the way people organize the production and distribution of goods and services.
- State and explain three basic questions every economic system must answer: What to produce? How to produce? For whom to produce?

Background

An **economic system** is the way society organizes the production and consumption of goods and services. Every economic system answers three **basic economic questions**: What to produce? How to produce? and For whom to produce? How a society answers the three basic economic questions determines the society's economic system.

Historically, there are three types of economic systems—tradition, command, and market (price) system. These economic systems answer the basic economic questions in different ways. In an economic system based on tradition, decisions are based on past behavior. In a command economy, decisions about production and consumption are made by a central planning unit, such as the government. A market (price) system answers the basic economic questions in the marketplace. A **market economy** is an economic system where most goods and services and resources are exchanged through transactions by households and businesses. Most economies contain some features of all three systems, because a mixture best satisfies the economic goals of a society (such as economic freedom, equity, and economic security).

Concepts

Economic system, basic economic questions

2. PREPARE

Newspapers
Scissors
Markers

Staplers
Rulers

For each group of four or five students, collect a large supply of newspapers, a pair of scissors, a marker, stapler, and ruler.

3. TEACH

Introduction

This lesson may require two class periods.

Explain to students they are participants in an economic system. Today they will learn what an economic system is and what three questions every economic system answers. This will be accomplished by working in small groups to simulate an economic system. Groups will decide what good to produce with given resources, how to produce it, and who will receive the finished product.

Activities

Students may use the five-step decision-making process introduced in Lesson 1 to decide what good to produce.

This is an opportunity for students to be creative and have some fun in class. One clever group of students created a Statue of Liberty costume and then modeled it for the class.

1. Divide the class into groups of four or five students. Distribute newspapers, rulers, stapler, scissors, and marker to each group. Allow time for groups to make a decision about what good to produce with their resources. Other resources may not be used.
2. After a group decision has been made, instruct each group to make one prototype (sample) of its good. The group should first decide how to produce its good. Explain that soon groups will have a full production period to produce their goods.
3. Allow time for groups to work and then show their prototypes to the class.
4. Replenish supplies of newspapers, but do not give students additional rulers, staplers, scissors, or markers.
5. Allow a 10-15 minute production period for groups to produce as many of their goods as possible. Do not give assistance or encourage competition.
6. At the end of the production period, collect materials and place all completed goods on a table for display. Write the name of each group's good on the board and record the number produced.
7. Mention that a problem exists. Looking at the number of completed items on the board, tell each group it has not produced enough for everyone who wants one to have one. For example, 20 paper airplanes might have been produced by one group, but there might be 25 people who want an airplane.
8. Discuss ways students can decide who will get the products they have produced. (The products could be given to the tallest people, smartest people, most important people, best friends, richest, neediest, and so on.) Encourage as many diverse suggestions as possible even if they are impractical. List suggestions on the board.
9. Explain that these are all possible ways to allocate or distribute the goods which have been produced.
10. Allow time for each group to decide which method of allocation it will use and tell the class. Discuss:
 - Who will benefit from your allocation method and who will suffer?
 - Do you think one allocation method is fairer than another?
 - Besides producing more, is there any way for everyone to be satisfied? (no)
 - What three questions did each group have to answer during this lesson? (What to produce? How to produce? For whom to produce?)
11. Explain that by answering the questions of What? How? For whom? each group formed an **economic system**. Define an economic system as the way people decide to organize production and consumption.

Students may use the five-step decision-making process introduced in Lesson 1 to decide how to allocate the goods they produced. Ask the class to think about criteria that might guide them in selecting an allocation method.

4. CONNECT

Community Connection. Invite someone from another country to your class to discuss that country's economic system and how decisions are made regarding the three basic economic questions.

Language Arts. Have students write a paragraph suggesting ways to allocate the limited goods produced by the class. Be sure they address the issues of who will benefit most, who will suffer most, and which allocation method seems fairest and why.

Newspaper Connection. Find articles about countries in the process of changing their economic systems, such as China, Russia, and other former Soviet countries. Discuss the problems these countries face.