

Video 2 - Get Smart

VIDEO SUMMARY

This video discusses trade-offs and opportunity costs related to both small decisions, such as what to wear, and large ones, such as how much time and income people should invest in their own human capital. Because there are not enough resources to satisfy our wants, we must make choices. The range of choices over what to do with our spending and saving has increased dramatically over the past decade. When analyzing such decisions, it is important for people to devote the largest amount of their time to the analysis of decisions that have the greatest consequences. In the video, a problem-solving model is introduced. Called PACED, the model helps the students work through five necessary steps to make an informed decision:

<u>P</u> roblem	Identify the problem.
<u>A</u> lternatives	List the alternatives.
<u>C</u> riteria	List the criteria that are important in making the final decision.
<u>E</u> valuate	Evaluate the alternatives using the criteria.
<u>D</u> ecide	Make a decision.

Another important concept is investment in human capital. Discussion of this concept stresses the link between education and income. Using the PACED model, the students explore the costs and benefits of going to college and examine the long-term effects of an investment in a college education. The students work through a decision about what field of study they might choose, bearing in mind the skills it may help develop and demand in the market for those skills.

When they begin to earn an income, the students will need a plan to gain control of their financial lives if they are to achieve their short-, medium- and long-term goals. The plan should include the students setting up a budget that first pays them for

long-term savings, then covers major expenses such as shelter, food, clothes, transportation and utilities, and, finally, allocates income for discretionary spending. Budgets need to be written down, reviewed periodically and revised to reflect changes in goals and life circumstances. By making and living within a plan, we gain firmer financial control and increase the range of choices in our lives.

Lesson 2.1 - Why Can't I Have Everything I Want?

BACKGROUND INFORMATION

Because resources are scarce and wants are unlimited, we face many choices on a daily basis. Economists call choices *trade-offs*, getting one thing while giving up the next-best alternative. Sometimes this involves choosing between two items when we have enough money only for one, or giving up both to save money for a special expenditure later. At other times the decision is about not how we spend our money, but how we spend our time. The two are closely related because how we spend our time has a great deal to do with how much income we will have to spend. If we spend our time developing our human capital or using it wisely, we may increase our earning capacity or income. People who choose to play on a high school sports team may develop a natural ability but give up time that otherwise could be used for extra study or income from a part-time job. These are opportunity costs. The trick is to find a way to make decisions on how we utilize our human capital – skills and knowledge – as well as our limited time and income to maximize the benefit we gain from them. Some choices, such as deciding what soft drink to buy, have limited consequences. However, the selection of a car, a college, a career or housing has long-term consequences that warrant careful analysis of the costs and benefits of the alternatives. By using a decision-making model, people can maximize their long-term benefits.

VOCABULARY

Scarcity – the condition that arises whenever limited resources are insufficient to provide for peoples' basically unlimited wants

Productive resources - factors used to produce a good or provide a service (natural resources or land, human capital, labor and capital goods)

Trade-off – that which is given up to get something

Opportunity cost – the highest-valued alternative that is given up when a choice is made

Problem Solving Model – also known as the PACED model; the five steps of decision making: Identify the problem, list the alternatives, list the criteria upon which the decision will be based, evaluate the alternatives using the criteria, make a decision

Human capital – the knowledge, skills, abilities and talents that people acquire through experience, training and education that help workers produce goods and services and help determine their income-producing capacity

MATERIALS

- ✓ One copy of Activities 2.1.1, 2.1.2 and 2.1.3 for each student

PROCEDURE

Before viewing the video:

1. Define **productive resources** as natural, human and capital resources that are used to produce goods and services. Tell the students they are going to focus on the components of human capital and other personal resources they have or hope to develop to generate income and meet their personal economic goals.
2. Discuss the following questions:
 - A. What is the relationship among personal energy, income, and skills, abilities, and talents? *A person's energy influences the amount of effort the person can expend. This effort affects the acquisition of skills, which, in turn, influences the job and career a person can have. A person's job*

then helps determine that person's income. There are many choices to make on the way to developing human capital and enjoying its benefits. Many of them seem to involve putting off what we enjoy now to secure a higher income later. Identifying an interest that makes work and study in a related field enjoyable is one way to ensure that the development of human capital is both fun now and rewarding later!

B. How can people increase the amount and quality of the components of their human capital and personal resources? *Personal energy is the result of how well or how poorly a person manages a combination of nutrition, sleep and exercise patterns. People can acquire and expand their skills through practice, education and training. Generally speaking, the higher a person's skill level is, the higher that person's income. Although a person cannot increase the amount of time daily, a person can decide how better to manage his or her time to get the most out of it.*

- Define scarcity as the condition that arises whenever limited resources are insufficient to provide for peoples' basically unlimited wants. Explain that at any specific time, all productive resources are limited, and choices must be made related to their use. These choices cause **trade-offs**, giving up one thing to get another. When a person chooses to use resources for one alternative, the **opportunity cost** of that decision is the best alternative for which the resources could otherwise have been used. Note that tradeoffs result from the use of time, as well as money. Whether you are Bill Gates, Sam Walton or the poorest person in Burundi (where GDP per capita is \$600 per year), you still have to make a decision on the efficient allocation of your time. Once you have used up your time, you cannot get it back – and no one knows how much total time he or she has in life.
- Distribute Activity 2.1.1. Tell the students that they are going to do a Personal Resources

and Human Capital Survey. Explain the directions at the top of each column of the activity. Give the students 15 minutes to complete the chart.

- Ask the students how many of them are satisfied with the state of the personal resources and human capital they currently have.
- Ask the students for what type of jobs they think they are qualified, based on the type of skills they have and the way they utilize their income, energy and time.
- Tell the students that they are going to watch a video that explains how to manage their personal resources and human capital more effectively.
- Show Video 2.

After viewing the video:

- Discuss the following questions:
 - Why do we have to make choices? *Because our resources are limited and our wants are unlimited – because of scarcity*
 - What are some of the trade-offs young people consider? *Going to a golf tournament and giving up income that could be earned by working instead; deciding which major to have in college; whether or not to continue an education.*
 - Why would someone choose to go to a golf tournament, and give up the income they could earn instead? *At that point in time they valued the golf match greater than what the income earned would buy.*
 - What does the PACED model ask a person to do when choosing how to spend and use one's personal resources? *Identify the problem; list alternatives; list criteria that are important in making the final decision; evaluate the alternatives using the criteria; make a decision.*
- Distribute Activity 2.1.2 to each student. Discuss the following:
 - What are the five steps of making an

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effective decision? *Identify the problem, list the alternatives, list the criteria that are important in making the final decision, evaluate the alternatives using the criteria, and make a decision*

B. Why should a person consider using this model? *The future consequences of choices are not always obvious, and the decision-making model encourages people to consider these consequences, rather than making impulsive choices without considering the consequences.*

11. Ask the students if they have a car, are thinking of buying a car, or have been shopping for a car. Using the decision-making grid of Activity 2.1.2, ask the following questions and fill in the grid as a class.

A. What is the problem? *Deciding which car to buy – Problem could be written as, “Which car should I buy?”*

B. What are my alternatives? *Answers may include consideration of various types of cars as well as of public transportation or changing to an after-school job within walking distance to eliminate the most immediate need for a car.*

12. Explain that many people look at several cars or have several in mind when they shop. Place three or four types of cars on the “alternatives” section of the grid. Explain that price can eliminate a choice, and that the students should be realistic about affordability.
13. Ask the students what is important to them when they buy a car. *Answers will vary but may include color, miles per gallon, style, price, reliability, space, performance, sound system and so on.* Point out that everyone does not value the same things when making a choice. Also point out that people often rank such criteria by which of the criteria are most important to them. For example, price may be most important to some people, while miles per gallon or reliability are most important to others.

14. Instruct the students to evaluate the alternatives using the criteria. Tell the students to use a “plus” symbol when an alternative meets the criteria and a “minus” symbol when it does not.
15. Instruct the students to make a car-buying decision by circling the best choice, according to the evaluation they have just conducted.
16. Tell the students to list the opportunity cost of their choice by identifying the highest-valued alternative forgone as a result of their choice.
17. Distribute Activity 2.1.3 to each student. Have the students work in pairs. Tell the students that each pair is to construct a grid for each of the two decisions described on the activity, and solve the stated problems.

Solutions for decision-making grids:

- Bill and Sandy scenario: *Bill and Sandy should set up the cleaning service, and not sell the cleaning products.*
- Jennifer scenario: *Jennifer should buy the Cavalier. The Firebird costs too much. The mileage, space and color eliminate the VW.*

Activity 2.1.1 - Personal Resources and Human Capital Survey

<p>Time</p> <p>List your major activities for a normal school day, accounting for 24 hours of your time.</p>	<p>Income</p> <p>List the sources of your income, not the amounts.</p>	<p>Personal Energy</p> <p>Rate yourself on a scale of 1-10 for these major contributors to energy: nutrition, sleep and exercise.</p>	<p>Skills, Talents & Abilities</p> <p>List 15 skills you have now that would make you employable today.</p>

Activity 2.1.2 - Decision-Making Grid

Problem: _____

Alternatives/Criteria					

Circle your best alternative. Explain your reasons.

What is your opportunity cost?

Activity 2.1.3 - Solve the Problem

For each of the following problems, construct a decision grid that uses all five steps.

- A.** Bill and Sandy want to go to band camp, which is held during spring break. Each of them needs \$300, and they think they could earn the money efficiently if they work together. After a brainstorming session, they decide that they will either set up a cleaning service or sell cleaning products door-to-door. Both of them have to be concerned about not working so much that their schoolwork will suffer, because they are in the running for some scholarships. Bill also performs with a musical group, which has rehearsals once a week. Bill and Sandy figure they could charge \$10 per hour, per person for cleaning and use the tools and products that people already have in their homes. They are also counting on repeat customers with a regular schedule. They expect they each will be able to work 15 hours per week if they choose this arrangement. Alternatively, by selling the new Super Duper cleaning products door-to-door, Bill and Sandy will profit \$5 for each bottle they sell. The bottles cost \$12 each and come in a case of 25. They have to purchase the products a case at a time, and they have to pay within 10 days of receipt of the case. They aren't sure how many bottles of cleaning products they will be able to sell. What should they do?
- B.** Jennifer has decided to buy a car. She has saved \$6,800. After two weeks of research, she has narrowed her selections down to three vehicles. One of these is a Volkswagen Bug that is three years old and has 78,000 miles on it. It is lime green, which is not her favorite color. The salesman told her the price is \$6,000. The VW, which has a standard transmission, also gets 30 miles per gallon and has air conditioning and a radio/tape player. Another choice is an awesome Pontiac Firebird with 42,000 miles that gets 17 miles per gallon. It has an incredible sound system with a CD player. The Firebird costs \$7,200. Last is a Chevy Cavalier with 56,000 miles, which gets 23 mpg. It has air conditioning and a radio/tape deck. The Chevy costs \$6,500. After she drove the three cars Jennifer was really impressed with the way the Firebird handled well on dry roads. She thought the other two were OK, but a little sluggish compared with the Firebird. Since she lives in the snow-and-ice belt, Jennifer has to be concerned about how well the car handles under wintry conditions. Jennifer wants to be able to drive her friends to games and concerts to pay them back for all the times they have given her rides. Her money for gas and insurance is limited because she cannot have a job during the fall and winter sports seasons.