

## CURRICULUM: ROLE OF PROFITS IN SOCIETY

**SUMMARY OF CURRICULUM:** Students learn about the role of profits through a series of market simulations in which in which students play entrepreneurs, buyers, seller, and employees in a marketplace. Each market simulation includes follow-up Discussion Questions, Summary and Elaboration, and Student Worksheets.

**Subject Area:** Foundations of Economics

**Grade Levels:** 5-8 grades

**Curriculum Topic:** Role (Benefits) of Profits in Society

**Learning Standards:** Students will explore the role of profits in society through a series of Market Simulations conducted in the classroom that demonstrate important benefits that accrue to societies that encourage entrepreneurs and businesses to earn profits. Key concepts include:

- a) How the profit-motive rewards initiative, risk-taking, and investment, and encourages innovation;
- b) How profits provides society with the vast array of goods and services they need at prices they can afford; and
- c) How profits create jobs and lead to economic growth; and how profits promote freedom and self-reliance among citizens.

**Vocabulary Used:** marketplace, free market, entrepreneur, good & services, consumer, producer, employees, investment, risk taking, risk capital, profits, retained earnings, profit-motive, incentives, initiative, costs, efficiency, progress, technology, technological advancement, capital, surplus

**Essential Understandings:**  
**(What students need to know)**

1. Profit is the difference between the price a business is able to sell a product or service for and what it cost to make or provide the product or service. It is the reward the entrepreneur gets for his/her hard work and for the risk he/she takes. Successful entrepreneurs and business owners need to be able to earn more than employees to make the risk worth taking.
2. The Marketplace is where buyers and sellers come together to exchange goods and services for money.
3. Profit encourages people to go into business and take on risk. It also encourages hard work and initiative.
4. Profit encourages innovation, product improvements, efficiency, and technological advancement. It encourages scientific exploration and discovery of better ways of making & doing things.

5. Wealth and well-being of people throughout the world began growing hundreds of times faster after the idea of profit began to be understood and grow widespread about 200 years ago.
6. In countries where profit is encouraged the most, citizens have become wealthier, healthier, and safer. These societies have more inventions, and enjoyed much greater advancement in every important area, such as medicine. Countries that restrict profits have remained poorer and have experienced much less progress.
7. The United States, Western Europe, and Japan are examples of societies that have encouraged profits. In such countries as the former Soviet Union, Africa, and the Muslim countries of the Middle East, profits have either been restricted or poorly understood.
8. The profit motive encourages new businesses to enter the market, thereby creating more competition and diversity of goods and services. Because of this, in countries where profit is encouraged, citizens are provided with a vast array of goods and services that they want and need.
9. Competition results in lower prices and makes goods and services more affordable to people.
10. The promise of profits attracts investment by rewarding banks and individuals that invest in entrepreneurial pursuits, thereby spurring economic growth, and creates new capital (retained earnings) that can be used to increase production and grow the economy.
11. Growing economies create jobs for citizens and opportunity for immigrants. Growing economies create wealth money that can be used for charities, the arts, cleaning the environment, education, and good works. Growing economies brings in tax revenues that enable government to function.
12. Profits and free markets allocate resources most optimally and efficiently. In this way, it promotes conservation, and reduces waste.
13. The promise of profits PROMOTES FREEDOM and SELF-FULFILLMENT by promoting SELF-RELIANCE from government.

**Essential Questions:**  
**(Essential Understandings can  
 be in the form of questions)**

1. What might be the reason that the United States was able to completely rebuild its naval fleet in just a few months until it was larger than the rest of the world's fleets combined during WW II?

**Essential Knowledge & Skills:**

1. Be able to identify which major countries and world regions

**What students need to be able to do)** encourage profits the most and which encourage profits the least.  
Be able to compare, via text readings, graphs, tables and other analyses, the relative success of these countries' economies.

2. Be able give a well-organized presentation explaining the benefits that accrue to societies that encourage profits. OR be able to defend the virtues of profits, in writing or in verbal debate against hypothetical critics of profits.
3. Be able to predict the likely results and consequences of economic policies that either move restrict or further encourage the profit motive and be able to explain the basis for the prediction.
4. Be able to identify characteristics and measures that ascertain the extent to which profits are encouraged by various economic systems and societies, especially free market capitalism versus socialism, but also other societies, and use this information to compare their relative success in promoting economic welfare.

## LESSON PLANS & ACTIVITIES

The following lesson Plans and activities are suggested:

Activator [<link>](#)

Vocabulary Sheets [<link>](#)

Key Discussion Questions [<link>](#)

FREE MARKET SIMULATIONS: Classroom activities that simulate the marketplace. Includes:

1. Preparation, Materials Required & Assignment of Student Roles
2. Simulation
3. Market Result
4. Discussion of Results and Discussion Questions
5. Teacher Elaboration

Role of Profits – Free Market Simulation #1

“When Businesses Are Not Able to Earn a Profit” [<link>](#)

Role of Profits – Free Market Simulation #2

“When Profit Motive Is Introduced” [<link>](#)

Role of Profits – Free Market Simulation #3

“How Profit Promotes Innovation and Prices” [<link>](#)

Role of Profits – Free Market Simulation #4

“The Effect of Government Taxes on Profits” [<link>](#)

Role of Profits – Free Market Simulation #5

“Government Restricts Market Entry or Creates Monopoly” [<link>](#)

Student Worksheets (#1-#5)

## Supporting Resources (That teachers and students can use)

### Graphic Organizers

“When the Free Market Improves Society” (courtesy NRIE)  
“When the Government Improves Society” (courtesy NRIE)

### Internet Resources

*GRAPH*: “Growth of World Income – Last 2000 Years”  
(courtesy of [visualizingeconomics.com](#)). Depicts extraordinary growth of world income following increased acceptance of profit. [<link>](#)

*GRAPH*: “Regional Wealth Shares” (courtesy of [visualizingeconomics.com](#)).  
Can be used by students to compare wealth share in countries that encourage profit versus those that restrict profit [<link>](#)

*GRAPH*: “GDP Growth East Asia & United States” (courtesy of [visualizingeconomics.com](#)) [<link >](#)

*GRAPH*: “Length of Unemployment (1980-2009)” (courtesy of [visualizingeconomics.com](#)). Compares the persistence of unemployment in three recent recessions. [<link>](#)

### Statistics & Polls Books (excerpts)

### Articles

“The Role of Profits,” Williams, Walter © Creators Syndicate, Inc, 2002  
(courtesy of [www.wnd.com/news](#)) [<link >](#)

The Functional Role of Profits,” Johnson, Arnold W, 1982 (courtesy of the [freemanonline.org](#)). NOTE: High School level reading. [<link>](#)

“Profits,” by Stossel, John, 2009.  
<http://stossel.blogs.foxbusiness.com/2009/11/02/profit/>

“Why Is Profit A Dirty Word,” by Stossel, John, 2009 (courtesy [townhall.com](#))

### Case Studies Audios/Videos Speeches

### Research Opportunities

### Field Trips

### Assessments

## Activator: Preparation For Lesson On “Role of Profits In Society”

Name \_\_\_\_\_

**Mark whether you agree or disagree with each statement. Use the line for comments.**

	Agree	Disagree
I have heard of the word “profit” before.	_____	_____
_____		
I understand what it means to earn a profit.	_____	_____
_____		
I know someone who owns a business that tries to earn a profit.	_____	_____
_____		
I know someone who works for a company that earns profits.	_____	_____
_____		
All businesses earn profits (are profitable).	_____	_____
_____		
Most people think profits are good for society	_____	_____
_____		
Most people think profits are bad for society	_____	_____
_____		
It is better for our country when business make lots of profit	_____	_____
_____		
Profits are necessary for a business to stay in business	_____	_____
_____		
Some businesses make too much profit	_____	_____
_____		
Profits make people greedy	_____	_____
_____		

# **Classroom Activity:**

## **Free Market Simulation – Role of Profits**

### **A. Overview**

In this activity, the class simulates the marketplace under various conditions (or Scenarios). Several different profit scenarios are depicted, enabling students who are Buyers-Laborers and Entrepreneurs to make decisions based on the profit incentive.

The Activity is composed of the following learning components:

1. Market simulation
2. Class discussion of the results of the market simulation
3. Explanation and elaboration of the results by the instructor
4. Completion of an Activity Worksheet by the students

**An ACTIVITY WORKSHEET accompanies the Activity**

### **B. Preparation For the Activity**

#### **1. Choosing the Product or Service to be Marketed**

Either the instructor, or the class together, first need to choose the product/service that will be sold in the marketplace. Possibilities, for example, might be: 1) shoes (simple to understand and used by schoolchildren); 2) hospital services/medical supplies (appealing because the product/service is important and helps people); 3) music production (very appealing to students and they are used to discerning music that they like and dislike).

#### **2. MATERIALS NEEDED**

1. Pretend money -- about \$200 (ten \$10 bills; 75-150 \$1 bills are needed, depending on the number of students in the classroom). **SHEETS OF PRETEND MONEY IS PROVIDED IN THIS LESSON PLAN**
2. Props for simulating store fronts, products, factories, etc.
3. Signs (small white boards) for displaying the price of products being sold

**Pretend Money can be printed from sheets at the end of this Lesson.**

#### **3. ASSIGNMENT OF STUDENTS' ROLES**

The Instructor divides the students into the following:

- Entrepreneurs (at least two)
- Factory Operators (at least two)
- Employees of the entrepreneurs and factories
- Buyers-Laborers

One possible division of assignments, assuming 28 students in the classroom:

Two Businesses (each with one entrepreneur & one employee) -- TOTAL: 4 students  
Two Factory Operators (plus one employee) -- TOTAL: 4 students  
Remaining students are Buyers-Laborers (it is assumed they are employees of other businesses – TOTAL 20 students.

#### **4. ASSIGNMENT OF MONEY**

Entrepreneurs are initially given three \$10 bills (\$30) with which to invest.

Buyers are allocated money as follows: five are given \$6; five are given \$5; the remaining are given \$4 (demonstrating differences in buying power common in society).

Now you are ready to begin the Activity. The first Scenario is the simplest. The subsequent scenarios add profits and other market components.

### **Possible Classroom Set-up**

Factory 1

Factory 2

Entrepreneur's Storefront 1

Entrepreneur's Storefront 2

Bank

**B u y e r s**

# Free Market Simulation Activity – Role of Profits

## SCENARIO #1:

### Scenario #1: WHAT HAPPENS WHEN BUSINESSES CAN NOT MAKE A PROFIT.

In this scenario, neither the entrepreneurs nor the producer(s) make a profit.

#### 1. MARKET SIMULATION

##### Instructions to Entrepreneurs

Each entrepreneur is given \$30 to invest in their business. Of this, \$20 is given to the Factory Operator to produce 10 units of the product/service and \$10 is set aside (given to the Instructor or put in the “bank”) to pay the employees at the end of the month. In other words, it costs entrepreneurs \$2 per unit in factory costs and \$1 in labor costs per unit sold.

Each entrepreneur is instructed to sell their product at \$3 per unit.

NOTICE: Net Profit will be zero dollars for both entrepreneurs.

##### Instructions to Buyers

After the instructor has allocated the pretend money to the buyers (in the amounts suggested above), the instructor instructs the Buyers that they ALL would buy four units of the offer product/service at a price of \$1 or less; two units at \$2 or less; and one unit at \$4 or less. Five students are instructed that they would still be buyers at \$5 and two students that they would still be buyers at \$6. No students are buyers at more than \$6. RECALL that some buyers were allocated more money; however, in this scenario they all share the same buying behaviors.

Now send the students to the entrepreneurs to purchase goods. Make sure that the Entrepreneurs have put up their price signs.

#### 2. MARKET RESULT

Since both businesses are charging the same price, there is no incentive for Buyers to discriminate between the entrepreneurs. Also, at \$3 per unit all the buyers will purchase exactly one unit, thereby selling out both entrepreneurs.

Both entrepreneurs AND the Factory Operator are left with exactly the same amount of money they started with. They earned ZERO profits.

#### 3. MORALE OF THE STORY: DISCUSSION OF THE RESULTS AND QUESTIONS

Make sure the Entrepreneurs count the money they have at the end.

##### Some questions and concepts to discuss:

**Discussion Question:** The instructor should ask the entrepreneurs how they feel about their business and the results of their hard work and investment of time and money.

**Discussion Question:** The instructor should then ask whether the entrepreneur will continue with the business. In some cases the instructor may have to remind them that they started with \$30 of their own money and ended up with exactly the same amount of money, whereas they could have been employed by someone else earning a small salary. Obviously, the entrepreneurs would feel that they wasted their energy and shouldn't have RISKED their money. They would close their business.

The instructor then instructs the Entrepreneurs to fire their employees.

**Discussion Question:** The instructor asks how the Buyers they feel about what happened. Initially, they may feel fine. They got the product they wanted.

**Discussion Question:** Then, reminding the students that the Entrepreneur had just fired his employee, the instructor can ask the students what happens to employees throughout the country if no businesses were earning a profit. Of course, they too would be fired. At this point, the class can discuss the fact the only reason any of them had money was because they, too, were employees somewhere. Of course, if no businesses made a profit, they too would be unemployed.

Finally, the class can assume that everyone has used up their previous purchases and need to replace the product. Of course, when the buyers to go to the entrepreneur to buy more, they find that the businesses are closed.

#### **4. SUMMARY AND ELABORATION: Closing Lecture**

At this point, the instructor should explain to the students that in many countries, many people are unemployed and can't find products that we, in the United States, take for granted. The instructor can also explain that for thousands of years no societies provided the vast array of good and services we enjoy today, and that almost everything that has ever been invented, produced, bought and sold occurred in the past few hundred years, following the advent of the profit and free markets. In other words, barely 200 years ago, the kings and queens of France and England, during the height of their respective powers were far less well-off than the typical American today. They had none of the IPODs, automobiles, vitamin-fortified foods, fresh fruit, 27 kinds of fresh fish, access to education, medicines that they needed, cosmetics, sweat-absorbing clothes, movies, etc., etc., that we take for granted today.

**Graph of World Income For the Past 2000 (see next page).** Visualizing Economics' graph of the growth of world income years for the past 2000 years can be shown and discussed. It demonstrated dramatically the manner in which wealth and availability of products and services have skyrocketed in the few short years of profits and free markets..

#### **5. STUDENTS COMPLETE WORKSHEETS FOR SCENARIO #1**

Have students compete the Activity Worksheet for Scenario #1

# Free Market Simulation Activity – Role of Profits

## SCENARIO #2

### SCENARIO #2: THE PROFIT MOTIVE IS INTRODUCED

In Scenario #2, entrepreneurs are allowed to make as much profit as they can.

#### 1. MARKET SIMULATION

##### Instructions to Entrepreneurs

Once again, each entrepreneur is given \$30 to invest in their business, \$20 of which is given to the Factory Operator to produce 10 units and \$10 is set aside to pay employees at the end of the month. This time the instructor instructs the entrepreneurs that they can make a profit.

Before allowing the market Simulation to begin, the instructor asks the entrepreneurs what they can do to make a profit. (The ANSWER is to either raise prices or reduce costs. This may not be obvious to the students, so the Instructor may have to coax the answers out).

To make things more interesting, the Instructor should suggest to the Entrepreneurs that cutting costs takes time and new technology and that they should try raising prices first (Scenario #3 will involve cost-cutting and innovation). To make things even more interesting, the instructor could quietly suggest (in a huddle without the Buyers hearing) that one Entrepreneur raise the price to \$4/unit, and the other Entrepreneur raise the price to \$5 or even \$6/unit.

##### Instructions to Buyers

The buyers have the exact same instructions. The instructor may have to remind which Buyers are willing to buy at the higher prices.

After the new prices are announced, the buyers go to the entrepreneurs to purchase goods.

Make sure that the Entrepreneurs have put up their new prices.

#### 2. MARKET RESULT

The Buyers quickly sell out entrepreneur with the \$4/unit price. However, at most, only five buyers purchase product at the business selling \$5/unit (maybe fewer if they were able to get to the cheaper seller before he/she sold out). Even fewer would be buying at \$6 or higher, as per instructions provided by the instructor to the Buyers earlier.

The entrepreneur that sold at \$4/unit, therefore, had \$40 in sales and earned \$10 in profits. The entrepreneur with the \$5 price had five sales at most and earned \$10 in profit or less. It depends on whether some buyers that were willing to pay \$5 were able to buy at \$4

from the other entrepreneur. A business selling at \$6/unit had at most two sales and \$6 profit.

### **3. MORALE OF THE STORY: DISCUSSION OF THE RESULTS AND QUESTIONS**

Make sure the Entrepreneurs count the money they have at the end. Then the Instructor asks the students how they feel about the results.

#### **Some questions and concepts to discuss:**

**Discussion Question:** The Instructor should specifically ask the Entrepreneurs whether they are happier than under the previous scenario (Scenario #1) and whether the profits are now worth the hardwork and investment risked. (The instructor may have to remind the entrepreneurs that they started with \$30 of their own money and now have much more in only one day!) The entrepreneur with the \$4 price should be happiest because he/she cleared \$10 and sold out. The entrepreneurs with the higher prices are likely to have a mixed reaction, depending on their profits. Question: Ask the Entrepreneur with the higher prices what he/she plans to do next time. With little thinking, they will realize they need to lower their prices.

**Discussion Question:** Ask how the Employees feel. They are happier because they still have jobs (as does everyone else in the classroom assuming the businesses they work for are now also profitable).

**Discussion Question:** Turning to the level of satisfaction among the Buyers: at first, the Buyers will have mixed reactions. Some got the product they wanted, but at a higher price. Some were “priced out of the market” OR were not able to purchase what they needed because the lower-priced Entrepreneur sold out of his/her product. (The instructor may have to remind the Buyers that they ended up unemployed under Scenario #1, but are still employed under Scenario #2. That might “cheer” them up even further.)

**Discussion Question:** The instructor should then return to the Entrepreneurs and ask them what they will do with the extra money in profits. (Remind them that some Buyers weren’t able to purchase product the first time, and that Buyers are going to need to replace their original purchases.) With a little thinking, the entrepreneurs will realize that they should use at least some of the profits to produce more product at the factory. In addition, the higher-priced Entrepreneur will likely want to lower his/her price.

At this point, the instructor could allow the Entrepreneurs to invest in additional product using their profits and then sell to Buyers that still need product, thereby increasing their profits even further.

**Discussion Question:** Finally, the instructor should ask the Buyers whether any of them would like to open a business and compete for these profits. Obviously, at least some would: they can earn \$10 or more per day as opposed to the going labor rate of \$10 per month. (The instructor should mention the fact that although the entrepreneur earns a

month's salary every day, he/she does have to work harder and is taking risks in the event the business doesn't succeed. This provides an opportunity for the instructor to introduce the concepts of risk and return.)

#### **4. SUMMARY AND ELABORATION: Closing Lecture**

At this point, the instructor should summarize what occurred, name that:

- § Businesses survived to provide replacement product
- § Employees kept their jobs; employment rose
- § Supply was increased until everyone was satisfied
- § Competition between the two entrepreneurs forced lower prices
- § That an "equilibrium" was reached in the market, without any guidance by government or laws
- § That more businesses are started and competition is increased (assuming some buyers became entrepreneurs).

The instructor can then explain to the students that in countries where people are free to start businesses and earn profits easily, the supply of product is many times that which is available in countries where the starting of businesses and profit is restricted. Also, employment is much higher in countries where businesses owners are free to earn as much profit as they want. Finally, prices are much more within reach of the average citizen in countries where profits and free enterprise are encouraged.

#### **Graph of Regional Wealth and Per capita GDP East Asia Compared to the U.S.**

The Visualizing Economics graphs on the following page demonstrate the stark differences in consumption of goods and services in various parts of the world. Europe and the North America (Canada and the United States), of course, is where free markets and profits have been encouraged the most and the longest. The Rich Asia-Pacific consists of Japan, South Korea, Hong Kong and Singapore, all which allow much more freedom to earn profits than China.

The instructor might also explain to the students how China's government is fast changing its attitude toward allowing some of its population to earn as much profit as possible. The result is that China is now by far the fastest growing country in the world in terms of its economy.

In other words:

**FREEDOM TO EARN PROFITS = ECONOMIC GROWTH/  
PROSPERITY**

#### **5. STUDENTS COMPLETE WORKSHEETS FOR SCENARIO 3a & b**

Have students complete the Activity Worksheet for Scenario 3a & b.

# Free Market Simulation Activity – Role of Profits

## SCENARIO #3

### SCENARIO #3 (Part I): HOW PROFIT PROMOTES INNOVATION & LOWERS PRICES

#### 1. MARKET SIMULATION: SCENARIO 3.a

In Scenario 3.a, one entrepreneur continues to be allowed earn as much profit as he/she can. The other entrepreneur is restricted to \$1 in profits per unit sold by government regulation.

#### Instructions to Entrepreneurs

Once again, each entrepreneur is given \$30 to invest in their business. But this time, the entrepreneurs can also “borrow” an additional \$5 to invest to research and create new, innovative technologies that will lower the cost of producing their product by \$1.50/unit. (The Instructor needs to explain that the \$5 will later have to be returned to the bank out of the profits the entrepreneur ultimately earns under this Scenario.)

The Instructor should first approach the Entrepreneur whose profits are restricted. With some thinking, it should be clear that there is no reason to invest an extra \$5 when there is no opportunity to increase profits. Five dollars is lost for nothing. Then the Instructor should approach the Entrepreneur whose profits are not restricted with the same opportunity.

At this point the instructor can lead the class in a mathematical analysis of the potential gains from investing in the new technology. The Activity Worksheet provided at the end of this lesson provides a guide for this analysis. Eventually, it will be clear that if the entrepreneur can increase his/her per unit net profit by \$1.50, it would only take four sales to earn a positive return on (to recoup) the additional \$5 investment.

At this point, Scenario 3.a ends so a class discussion can ensue. Scenario 3.b will follow shortly.

#### 4. SUMMARY AND ELABORATION: Closing Lecture

At this point, the instructor should summarize what occurred in Scenario #3a, specifically:

- § There was no reason to innovate or save costs for the Entrepreneur whose profits were restricted.
- § The potential for increased profits spurred innovation and technological development, as does cost-cutting.

## **SCENARIO #3 (Part II) HOW UNRESTRICTED PROFITS PROMOTE INNOVATION, LOWERS PRICES, & INCREASES PRODUCTION**

### **1. MARKET SIMULATION: SCENARIO 3 (Part II)**

At this point, Scenario #3 resumes, the class having learned that only Entrepreneurs that can increase profits will innovate. This time the instructor should free both entrepreneurs to maximize their profits and again offer them both the chance to “borrow” an additional \$5 to invest to research and create new, innovative technologies that will lower the cost of producing their product by \$1.50/unit. After undergoing the lesson in Scenario #3a, both entrepreneurs will make the investment.

The entrepreneurs face two options. They can lower costs without lowering price, thereby maximizing their profits, or they can also lower their price by \$1 or 2/unit.

**Discussion:** First, see which options each of the two entrepreneurs choose and ask them why they chose that option. Then have the class discuss the pluses and minuses of each option from the perspective of the entrepreneurs.

#### **Instructions to Entrepreneurs**

Then regardless, of which options have been chosen by the Entrepreneurs, the class should conduct a Scenario in which one entrepreneur lowers the price by \$2/unit (which, significantly, is even MORE than the reduction in costs); and other Entrepreneur continues to sell at the old \$4/unit price. (REMEMBER: The entrepreneurs only have to invest \$15 of their \$30 to make 10 units now that they have lowered costs. The Instructor should tell the Entrepreneurs to put the extra \$15 in their pockets. Later, they will owe \$5 to the bank.)

#### **Instructions to Buyers**

The instructor reminds the buyers of their original instruction from Scenario #1: that they would buy four units at \$1 or less; two units at \$2 or less; one unit at \$4 or less.

After new prices are announced, the buyers go to the entrepreneurs to purchase goods.

### **2. MARKET RESULT**

The Buyers line up to purchase TWO (2) UNITS from the Entrepreneur that has lowered the price. This entrepreneur sells out quickly. The Buyers who were in the back of the line are frustrated by not getting the better price. Some may complain. Some probably begin to move toward the other entrepreneur to purchase product at the higher price.

If this happens the instructor can allow a couple of Buyers to purchase product at the higher price, making the entrepreneur with the higher price happy. But after a couple of such purchases, the Instructor should STOP THE ACTION for a moment and ask the entrepreneur that is sold out, “Is there anything you can do, now that you are sold out?” (If necessary, the Instructor can hint that the entrepreneur has \$15 in his pocket and \$40 more from his recent sales. At some point, someone in the classroom should figure out that the Entrepreneur should invest in restocking. (It is possible that before the instructor has even

intervened a Buyer may have asked the Entrepreneur to produce more product.) Either way, of course, more products are now going to be produced.

\*\*\* The instructor should now allow the lower-priced Entrepreneur to use his profits to restock and sell more products to Buyers that still want to buy. (It should be about another 10-14 units)

### 3. MORALE OF THE STORY: DISCUSSION OF THE RESULTS

The instructor leads a class discussion of the results of latest market scenario.

#### Some questions and concepts to discuss:

**Discussion Question:** The instructor can ask the higher-priced entrepreneur what he will do now. The answer is likely that he/she plans to lower the price. This leads to a discussion about how competition leads to all producers to lower their prices.

**Discussion Question:** The instructor can lead a discussion concerning how much money the lower-priced entrepreneur earned altogether? This leads to a realization of how lower prices can actually result in greater earnings due to more production and higher sales.

**Discussion Question:** The Entrepreneurs can be asked how much product they are going to make next time at the lower prices. They will, of course, respond that they will increase production because of increased demand brought about by lower prices. This is an opportunity for the Instructor to point out that more factories have to be built and more people hired to make the additional product, resulting in more jobs and greater overall wealth to spend on even more goods and services next time. (This is how economic growth occurs and why the United States enjoys a higher standard of living than, for example, African countries.)

**Discussion Question:** The instructor can further inquire how the Buyers feel. They, of course, are very satisfied: they have twice as much product for the same price. (The instructor can further point out they more of them are employed to fill the additional factories that are being built.)

**Discussion Question:** Finally, the instructor can ask one more provocative question, "How many Buyers would like to become entrepreneurs now that the market has grown and earnings have increased yet again?" Presumably some of them would choose to become entrepreneurs, demonstrating the power of profit and free markets to increase competition. This provides an opportunity for the Instructor to point out that the increased competition will lower prices even more for consumers or even induce a "price war."

At this point, the instructor could describe a scenario in which someone takes the initiative to invent a process that reduces costs by \$2/unit and enters the market as a competitor.

**NOTE:** An alternative for this lesson is to have one of the Buyers-Laborers develop the cost-saving technology and enter the market as an entrepreneur in the beginning of the Lesson.

#### **4. SUMMARY AND ELABORATION: Closing Lecture**

At this point, the instructor should summarize what occurred, specifically that:

- § Innovation was pursued and technology was advanced
- § Costs and Prices fell
- § Competition forced ALL sellers to eventually lower costs and prices
- § Demand (consumption of goods) increased due to lower prices
- § Because they had more profits, entrepreneurs were able to build new factories and increase production
- § Production increased to meet the new demand and satisfy the needs of consumers
- § The number of jobs, and therefore, employment increased as more product was produced
- § New competitors were enticed to enter the market
- § The overall wealth of the country was increased. This can later spur even additional economic growth.

The instructor can then explain to the students that in countries where people are free to start businesses and earn profits easily, innovation is much greater, prices are much lower relative to the wages of laborers, consumption is higher, production is greater, and there are more jobs created.

#### **Graph of Regional Wealth Shares and Per capita GDP East Asia Compared to the U.S.**

##### **Worksheet Activity**

Have students complete the Activity Worksheet for Scenario #3a & 3b

## **Benefits of Profits In Society – Summary of Concepts Learned**

### **ROLE (BENEFITS) OF PROFIT TO A CIVIL SOCIETY**

- 1. Rewards and encourages initiative, hard work and risk-taking.**
- 2. Encourages innovation, progress, improvements, efficiency, and technological advancement.**
- 3. Encourages scientific exploration and Research and Development to discover new innovations and advancements.**
- 4. Encourages new suppliers/businesses to enter the marketplace, thereby creating more competition and diversity of goods and services.**
- 5. Provides people with a vast array of goods and services that they want and need.**
- 6. Lowers prices and makes goods and services more affordable.**
- 7. Creates jobs for citizens and opportunity for immigrants.**
- 8. Attracts investment by rewarding banks and individuals that invest in companies and entrepreneurs.**
- 9. Creates new capital (retained earnings) that can be used for economic growth and to provide insurance in times of recession.**
- 10. Creates wealth and capital for charities, the arts, and good works.**
- 11. Brings in tax revenues that enables government to function.**
- 12. Allocates/Directs resources optimally, promotes conservation, and reduces waste.**
- 13. PROMOTES FREEDOM AND SELF-FULFILLMENT BY PROMOTING SELF-RELIANCE FROM GOVERNMENT**