**The Case for Economic Education in the K-12 Classroom**
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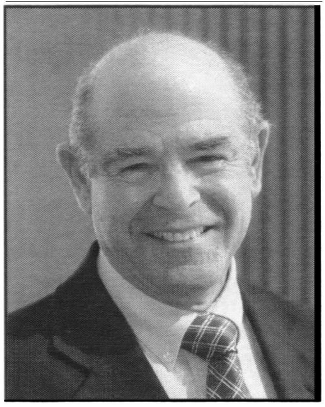
## Theme Introduction

# The Case for Economic Education in the K-12 Classroom

Jim Charkins, Ph.D., Guest Editor



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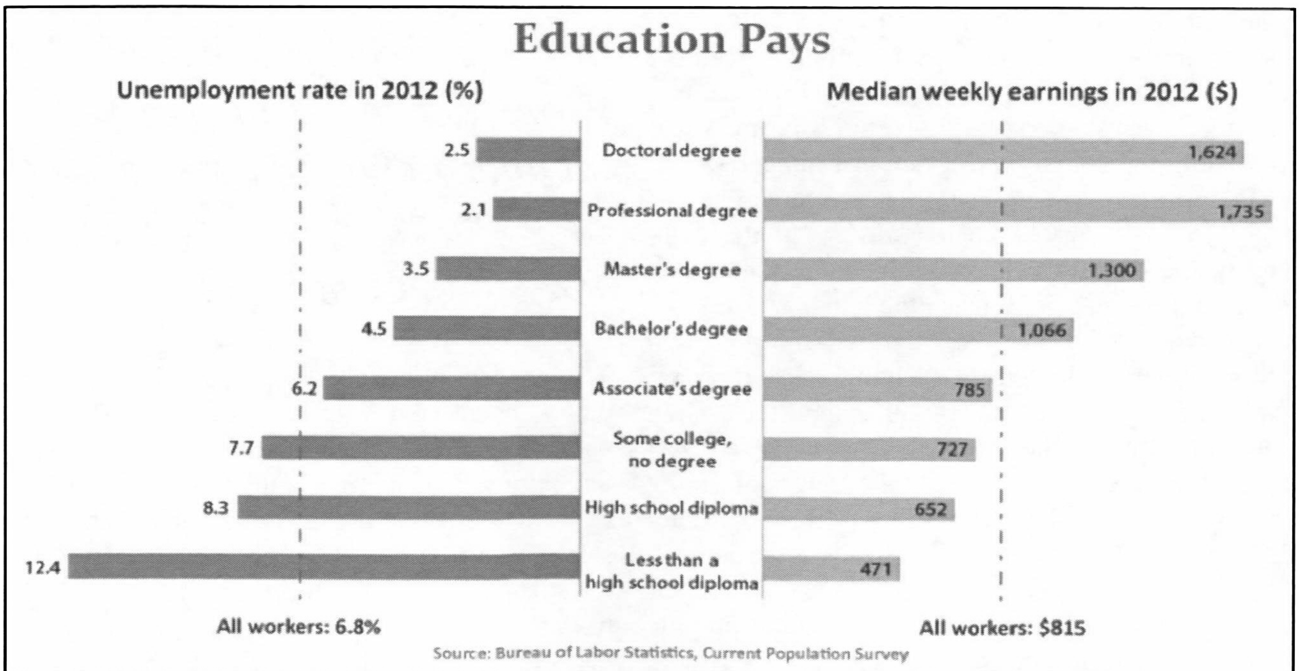
I'm excited to be guest editor of this issue of the California Social Studies Review because this is an opportunity to clear up many misconceptions about economics and its role in the K-12 curriculum. Let's begin by disabusing readers of some of the most common fallacies about economics. It is not boring. Economics is about the choices that your students make every day, some of which will have repercussions throughout their lives. For example, the most important financial decision your students will ever make is whether to complete high school and continue to post-secondary training or college, or to leave school without a high school degree. The difference in lifetime earnings between a high school dropout and a college graduate is well over $1 million. In addition, high school dropouts are almost three times more likely to be unemployed as college graduates. (Bureau of Labor Statistics)



Rather than jumping into a college degree program, however, students must also look at the cost and quality of the degree. Is an Ivy League degree more than ten times better than a degree from a state university? If not, perhaps the Ivy League degree is a bad choice. In fact, a two year degree, in some instances, is actually more valuable in the labor market that a four year degree. But many students who attend a "for profit" college may spend two years and leave without a degree but with a great deal of debt. The Harkin Report states that over 50% of two year degree seekers left the institution without a degree and with debt that may follow them the rest of their lives. So it is clear that more education means more income but may also mean more debt. An understanding of economics will help students use information to weigh the benefits and costs of different types of post-secondary education. This is fundamental economics and it is certainly not boring.

A second misperception is that **economics is abstract, theoretical, and most important, irrelevant** to students' lives. Well, to be fair, there is a theoretical underpinning to economic analysis. We begin with the fact that resources are limited and insufficient to satisfy all of our goals. I was listening to a well-know and highly-respected author giving a commencement address at a California university. I was looking forward to his address because I had read his works and greatly admired them. But he lost me with his opening statement that scarcity is a false argument because there is enough food to feed everyone in the world. This statement clearly demonstrated his misunderstanding of the concept. There probably is enough food to abolish hunger worldwide. But is there sufficient infrastructure to get the food to the hungry? Is there sufficient political stability and honesty to know with certainty that food sent to the hungry will reach the hungry? Are those of us who do not face starvation willing to give up some of our wealth to feed the hungry and, if so, are we confident that our efforts will achieve the desired end? Remember, the definition of scarcity is insufficient resources to achieve all of our goals. Feeding the hungry will take resources away from other desirable social goals such as a cleaner environment, medical research, education, public safety, etc. Or take the issue of medical care. We could provide the best medical care for all citizens, but it would take approximately 90% of all of our resources. This doesn't leave much for education or other goals!

So, recognizing that scarcity exists, is there a way to use our limited resources to maximize the well-being of our society? That is where economics comes in. Economic reasoning entails balancing the competing demands on scarce resources to achieve the best for the most. When determining how to use limited resources, it must be recognized that putting a resource into one activity necessarily means taking that resource away from the best alternative. For example, an elementary school is notified that it must develop a plan for a windfall grant it has just received. The grant specifies that grant funds cannot be split; they must go for one program. The relevant parties gather together and debate the use of the gift. The question is finally narrowed down to two alternatives: early childhood education or gifted and talented education. Both are obviously desirable goals, and using the gift one way clearly means giving up the opportunity to use it another way.

*Economic reasoning involves weighing the advantages and disadvantages of the two alternatives in an attempt to decide which alternative gives the best "bang for the buck". From this comes the not-so-famous dictum that there is no such choice as a free choice; every choice has a cost.*

This concept of "opportunity cost," the best opportunity not selected when a choice is made, is essential to all economic thinking. If a resource is used for one purpose, what opportunity is given up, what is the best alternative use of the resource that was not selected? Economic reasoning involves weighing the advantages and disadvantages of the two alternatives in an attempt to decide which alternative gives the best "bang for the buck". From this comes the not-so-famous dictum that there is no such choice as a free choice; every choice has a cost. (The "free lunch" argument will be discussed in another article in this Social Studies Review issue.) While some might argue that this paradigm is theoretical and abstract, the verdict depends upon whether this method of thinking is applied to decisions familiar to students, such as whether to hang out with Jill or Sarah, whether to wear the green pants or the red skirt to school, whether to go home after school to do homework or do it at school, whether to plant a garden or a plan a school clean up as a service learning project, whether to go to the dinosaur museum or the art gallery on a field trip, etc. Suppose a high school student wants to go to a softball game but is supposed to work. Whichever she chooses, she is giving something up. The relevance of economics depends entirely on the relevance of the context in which it is taught. If well taught, ***economics is anything but irrelevant.***

Many think that economics should be relegated to high school because it is much too difficult for younger students. An underlying assumption is that economics is an academic subject with little connection with the world around us. In fact, **economics is much more than just a subject; *it is a skill.*** The skills that most people think of when they think of elementary school are reading, writing, and arithmetic. We begin teaching these skills to students in kindergarten. But economics is perhaps the most important skill of all because it gives students a reason to learn all of the other skills. As a result, it only makes sense that we begin teaching students this very important skill in kindergarten. We are not suggesting that students should be shifting supply and demand curves at such an early age, but we are suggesting that they should learn that every day they make choices. In first grade, they can learn that they have alternatives, in second grade they can learn that their choices have costs. And by third grade, they can actually be learning and applying benefit/cost analysis. If you are leery of this proposition, recognize that the California History-Social Science Standards include cost/benefit analysis kindergarten through 12th grade. In addition, it is essential that we help students understand some basic facts about the economy early in their education, since many of them make the decision to drop out of high school long before the 12th grade. If they haven't had any economics, students are making one of the most important decisions they will ever make with insufficient information; they probably don't realize what they are giving up.

Many believe that economics is about greed, and that sentiment is reinforced by pop culture that expresses the sentiment that greed is good. In fact, **economics is not about greed**, nor is it about altruism. Benefit/cost analysis is a tool that can be applied to all goals, whether socially desirable or socially undesirable. Economics can help an idealist work to minimize world hunger, or it can be used by a criminal to plan a robbery. If a person has a goal, economics can help that person achieve the goal.

That is not meant to imply that economics can't be used for good. When decision makers use benefit/cost analysis to evaluate the advantages and disadvantages of alternatives, all of their values come into play. So a policy maker who is considering saving prime forest land for wildlife may well recognize that employment will be lower as a result and consider this a disadvantage. A consumer who is considering buying a product that will harm the environment may consider this as a disadvantage and decide not to buy the product. While benefit/cost analysis itself is an amoral tool that is helpful in making decisions, there is a place in the process for all of the decision makers' values to be considered.

Students can apply benefit/cost analysis to all historical topics from 4th grade on. What was a young farmer from Indiana thinking when he decided to leave the farm and travel west to find gold? How did he choose between staying at home and farming or travelling west to seek his fortune? How did he decide whether he should travel overland or try the route through Panama? What were the colonists thinking when they decided to break the ties with England, ties that had made them very prosperous? What was Caesar thinking when he chose to cross the Rubicon with his army? What alternatives did Mahatma Gandhi consider when planning his resistance and why did he choose the path of peaceful resistance?

In grades 6 and 7, there is the opportunity to teach about international trade, since the Standards include numerous references to the role of trade and commerce among ancient civilizations. Grade 8 has many references to the economic aspects of the Constitution, including differences in the ideas of the founders concerning the economic implications of a strong or a weak federal government, differences in the economies of different regions, the consequences of those differences in forming a strong union, and much more. In grade 9, students can take an elective personal finance course. The Standards for grade 10 are full of references to different types of economies, the impact of the Industrial Revolution, and the contemporary integration of different economies. Grade 11 is an examination of the U.S. economy from the Great Depression to 1998. And, of course, the 12th grade required course in economics is meant to be a culmination of K-11 training in the skill of economic reasoning.

What would students who with a K-12 economics education be able to do? They would be able to apply benefit/cost analysis to all aspects of their lives. Contrary to Nike's "Just do it," our students would be asking the following questions:

- What is the goal of the proposed action and will the suggested action achieve the goal?
- Do the benefits outweigh the cost?
- Recognizing that every decision concerning the use of resources has a cost, is this the very best use of our resources?
- How do we know?

They would think carefully about the benefits of their decisions and weigh them against the costs. They would make informed consumer decisions. They would think carefully about careers and the skills they would need to prosper in those careers. They would participate in political discussions using benefit/cost analysis.

*Recognizing that development of their human capital is their key to success, students would take responsibility for their education.*

Students would understand how markets work. They would know that prices increase or decrease because of changes in supply or demand in various markets (unless a government dictates the price change through policies such as rent controls or minimum wage laws). Rather than becoming angry or adopting the victim attitude, economically literate students would make consumption decisions based on a product's price and expectations of the satisfaction they will derive from the product. If a price seems too high, they will choose not to buy it.. They would understand the principle of exchange, recognizing that buyers and sellers only come together if both of them can gain from the exchange. Students would realize, therefore, that when they purchase a product, both they and the producer of the product benefit.

Economically literate students would apply the basic understanding of markets to labor markets, learning that employers will hire them if they expect to gain more than they give. Development of their human capital would become an important goal, recognizing that their skills, knowledge, experience and personal qualities are their ticket to success. School would become not a nuisance or something that adults force upon them, but a path to a more fulfilling life. Recognizing that development of their human capital is their key to success, students would take responsibility for their education.

Students would understand that markets can accomplish certain goals and can't address other issues. Is there a role for the government when markets don't do their jobs? An economically literate citizen will address the question of the role of government in the economy by first recognizing that both markets and governments have imperfections. Realizing that, the question becomes, "Which is better, the imperfect market solution or the imperfect government outcome?" The answer will vary from issue to issue, but the informed citizen will have the background to address these issues in an informed manner. The question of how big government should be and what level of taxes is optimum really depends on the answer to another question, "What do you want government to do?" Once that question is answered (and every citizen is likely to have a different answer to the question) then the level of taxes is obvious. Taxes should be sufficient to pay for desired government services.

Your students would understand that the principle of exchange applies to an exchange between two individuals, or a series of exchanges between domestic producers and consumers. In addition, they would understand that if they buy products from overseas and workers overseas freely produced those products, then both groups win. So both domestic and international trades make people better off. The major problem with this analysis is that some people overseas work under less than desirable conditions and some domestic producers lose their jobs as a result of international trade. Realizing all of that, your students will know that the challenge then is to preserve all of the benefits of international trade while addressing the negative outcomes. They will realize, however, that it doesn't make sense to throw the baby out with the bathwater. Protective trade measures do more harm than good, and usually end up causing retaliatory measures from our trading partners. The founders of the nation realized that when they wrote article 1 section 8 of the Constitution reserving international trade policy to the federal government.

Your students would also have the basic information necessary to apply benefit/cost analysis to financial decisions. They would understand and act on the fact that compound interest can be their best friend when saving, and their worst enemy when borrowing. They will use benefit/cost analysis to decide how much to save, how much to spend, and how much to give. Using the *Pyramid of Risk*, they would decide in what form to keep their savings, understanding the value of diversification in financial investment. They would decide what kind and how much insurance to buy. They would think ahead to evaluate different retirement plans. They would consider what role credit should play in their purchasing decisions. Should they rent or buy a home? If they buy, what type of mortgage loan should they get? All of these decisions and more are made more effectively if the decision maker is using benefit/cost analysis, always remembering that every choice has an opportunity cost.

In terms of macroeconomics, students would understand how a looming recession will affect their employment outlook and what they can do to prepare for it. They would recognize the impact of Federal Reserve policies on interest rates and how those rates would affect the cost of borrowing for a house, car, or refrigerator. They would recognize that inflation erodes the purchasing power of their paycheck and their savings.

All these examples illustrate that economics is essential to one's ability to manage money and prepare for the future. With the framework provided by economics, personal finance becomes an organized body of analysis, knowledge, and critical thinking rather than a series of isolated decisions or unrelated facts.

So here's the big idea. If you don't want your students to learn to set goals, make reasoned decisions to achieve those goals, develop and use their human capital, think critically and analytically about personal and social issues, look forward rather than back, and take responsibility for their decisions, then you definitely should **not** teach economics. But if you think that those are things that you want your students to learn, then economics is for you...and for your students.

## References

Bureau of Labor Statistics http://www.bls.gov/emp/ep_chart_001.htm

Note: The term "cost/benefit" analysis is more often used than "benefit/cost analysis." Technically, the difference is that "cost/benefit" refers to only monetary gains and losses while "benefit/cost" includes non-monetary considerations. The term benefit/cost analysis was coined by Nobel Prize winner Kenneth Arrow.

## Regarding this Issue

Sincere thanks is due to all of the writers and reviewers who volunteered their time and expertise in order to ensure the quality of information presented in this issue. Special thanks to reviewers Harlan Day of the Sagamore Institute (see article on Personal Finance) and Suzanne Gallagher, Director, Center for Economic Education at Virginia Commonwealth University for their detailed review of material and important feedback.