

# Oklahoma's Personal Financial Literacy Passport

## Introduction Lesson:

## The Economic Way of Thinking

### Introduction

Lesson 1 – Economic Way of Thinking


Handout 1 – What Should the Jones Family Do with Their Vacant Lot?

Handout 2 - Economic Reasoning

Handout 3 – Making a Decision



Teacher Presentation Series A

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- 💰 The Economic Way of thinking involves the ability to develop and practice critical thinking skills that enhance decision making.
  - 💰 It requires students to realize that life is about making choices because we have limited resources and unlimited wants.
  - 💰 Using the “economic reasoning” model, students will realize that all choices have costs, and nothing in life is “free.”
  - 💰 This introductory lesson lays the foundation for the remaining modules.



# **Introduction:**

# **Economic Reasoning**

# ≡ *Payoff* ≡



- 👛 Identify the steps in economic reasoning.
- 👛 Define the terms associated with economic reasoning.
- 👛 Demonstrate the ability to apply economic reasoning.
- 👛 Demonstrate the ability to use the PACED decision making model.

# == Cache ==



- 💰 Choices
- 💰 Cost/Benefit analysis
- 💰 Incentives and Disincentives
- 💰 Opportunity costs
- 💰 Scarcity
- 💰 Trade-offs

# ≡ **Building Interest** ≡



- 💰 Can we have everything we want?
  - Why or why not?
- 💰 What are some of the choices you have made today?
- 💰 Why did you make them?
- 💰 Do all choices or decisions turn out like we planned?
  - Why or why not?

# Improving our Decisions



💰 We have to make choices.

- We cannot have everything we want.
- Society has limited resources.
- People have unlimited wants.
- We call this problem *SCARCITY*.



# Improving our Decisions



🍷 Every time we make a choice, we give up something.

- All choices have benefits.
  - Something positive we gain.
- All choices have costs.
  - Something we have to give up to have our first choice.
  - Our second best choice called *OPPORTUNITY COST*.



# Improving our Decisions



- We respond to incentives.
- Incentives are rewards.
- Disincentives are punishments.
- People prefer incentives and will change their behavior as their incentives change.
- We use incentives to evaluate the costs and benefits of our alternatives when making choices.

# Improving our Decisions



 Choices are shaped by economic systems.

- Economic systems have rules that influence what we can and cannot do.
- Rules influence our incentives.
- Incentives influence our choices.
- As rules change, incentives and choices change.

# Improving our Decisions



🍷 Choices have consequences for the future.

- The choices we make today impact our available choices in the future.
- What seems like a benefit today may be a cost tomorrow.
- We should make choices focused on the future.
- We cannot change what happened in the past.

# Jones Family Dilemma

## --Activity I



- The Jones Family wants to sell their land on the edge of town.
- They want to make the best choice for their community.
- Four different groups want to buy their land.



*Can you help them make a choice?*

# Jones Family Dilemma



## --Activity I

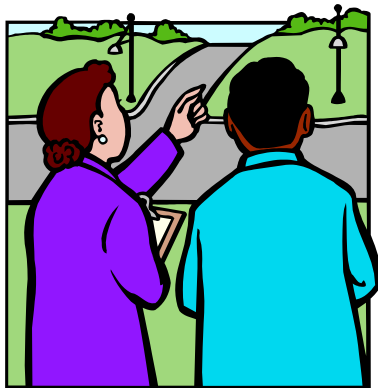
- Local school board wants to build a new school.
- MEGAMALL, Inc. wants to build a new shopping center.
- Wid-Get Manufacturing wants to build a new manufacturing plant.
- Builduahome wants to build new housing.

# Jones Family Dilemma



## --Activity I

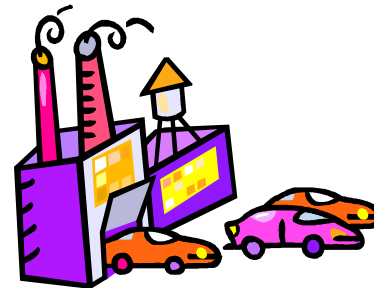
- The Jones Family must decide which buyer should have the land.
- Remember, they want to do what is **BEST** for the community.



# The Jones Family



- 💰 What should the family do with the land?
- 💰 What should the family consider before making a choice?
- 💰 How will their criteria influence their choices?



# Choices and Opportunity Costs



- 💰 What are some of the choices you have made today?
- 💰 What did you give up when you made that choice?
- 💰 What incentives can you identify that influenced your choices?



# PACED Decision-Making Model



1. State the **PROBLEM**.

2. List the **ALTERNATIVES**.

3. Identify the **CRITERIA**.

4. **EVALUATE** the options, based on the criteria.

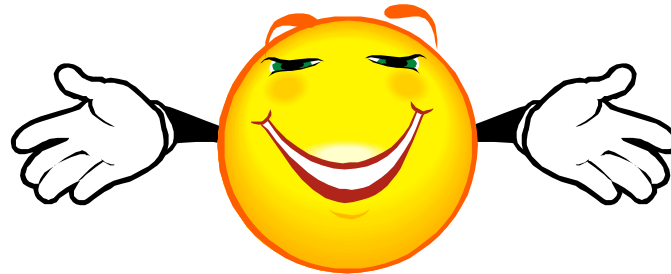
5. Make a **DECISION**.



# PACED Decision-Making Model



Use the PACED Model to make a decision!



# ***PACED – The Problem***



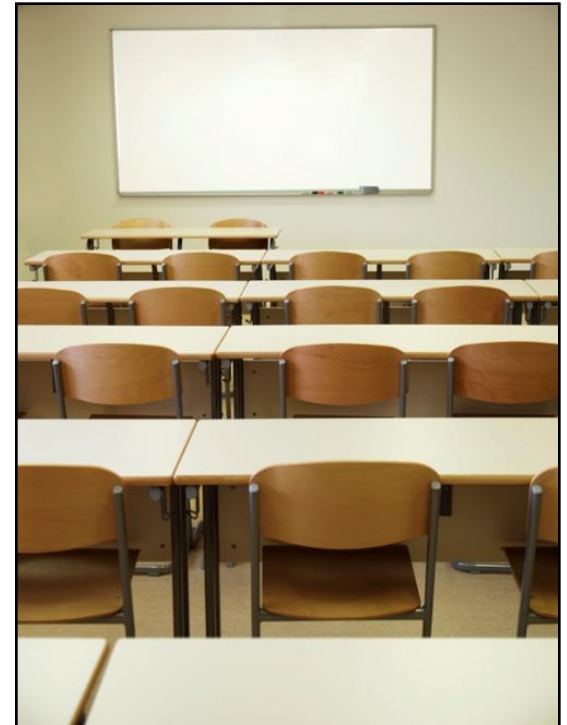
- Maria plans to attend college. She needs your help to decide where to go. What are Maria's alternatives?



# *The Alternatives – Maria's Top Choices*



- Local community college
- Regional state university
- Major state university
- Private college or university



# Criteria – *What's Important to Maria?*





- Proximity to home
- Cost
- Availability of scholarships or jobs
- Major



# Evaluate – What’s the Best Match for Maria?



<b>Criteria</b>  <b>Alternatives</b> 	<b>Distance from home</b>	<b>Scholarships</b>	<b>Cost</b>	<b>Major</b>
<b>Local Community College</b>				
<b>Regional State University</b>				
<b>Major State University</b>				
<b>Private College</b>				

# Decide – What Should Maria Do?



- Once you determine which alternative best meets your criteria, then you can make an informed choice!
- Making informed choices improves your chance of making “good” choices.



## ***Last, but not least.....***



- The next step is to ACT! Making choices without putting them into action is not a good practice.

**If Maria never enrolls, then she can never graduate or have the career she wants.**





# ≡ *Earnings* ≡



- 💧 Resources are limited and wants are unlimited.
- 💧 We have to make choices.
- 💧 All choices have costs.
- 💧 People respond to incentives in predictable ways.
- 💧 All choices have consequences.

# **≡ Earnings ≡**



- 💧 We need to weigh both the costs and benefits before making choices.
- 💧 Good decisions are well thought out and based on facts.
- 💧 Using economic reasoning and the PACED model can improve our decision making skills.

# **≡ Balance Sheet ≡**



- 💰 Why do we have to make choices?
- 💰 What is scarcity?
- 💰 What is opportunity cost?
- 💰 What is the PACED model for making decisions?