

Understanding Prosperity Through Scarcity, Price, & Economy

Answer Key

Anticipate:

Directions: As you watch the Prosperity video, think about what prosperity means or looks like to you or how it might be achieved.

Record your notes here

Students should note specific examples of what prosperity looks like to them. Answers may include money, a thriving community, etc.

Directions: The following quote is from Adam Smith's *The Wealth of Nations*, published in 1776. How does it relate to economics, prices, and availability of goods/services, and do you agree or disagree with Smith's views on self-interest? Record your thoughts below.

"It is not from the **benevolence** of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."

Record your notes here

Students should note that people generally trade goods and set prices so that they will benefit. If people provided goods or services for free, then there would be shortages

Directions: Watch the Economy video from the start to the 1:11 mark. Make a list of some of the things you may want to purchase in the near future. How effective would it be for the government to be in charge of deciding what is needed or what should be produced?

Record your notes here

Students should note that the government can't account for what individual's will want to buy in the future since it can change so much.

Directions: Continue playing the video from 1:11 to 2:44. Who decides what to produce? And what kind of impact do people like you have on the price of those goods and services?

Record your notes here

Consumers decide what is produced through their purchases. By choosing to purchase or not purchase goods and services, consumers send a signal of if they are priced correctly or not.

Directions: Continue playing the video from 2:44 to the end. What is the appropriate role of the government in the economy?

Record your notes here

The government needs to enforce contracts and prevent theft and fraud.

Directions: Choose at least two of the following goods or services. Click on the link to review prices for those goods over the last ten years. Record the price of that service for this year, and for at least 3 additional years.

Good or Service	Price Chart	Reflections										
Milk	<table><tr><th>Year</th><th>Price</th></tr><tr><td>2022</td><td></td></tr><tr><td>Answers may vary through entire chart</td><td></td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr></table>	Year	Price	2022		Answers may vary through entire chart						Answers may vary through entire chart
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Directions: Compare your prices with a partner who chose different goods and services. What similarities and/or differences do you notice? Brainstorm a list of factors of supply and/or demand that have caused changes to prices over time. What price change surprised you the most? Why? How do these price changes affect your prosperity?

Record your notes here

Answers may vary. Possible explanations for changes are changes in production, change in consumer taste, or change in technology.

Explore:

Directions: As you read about Hurricane Katrina, use the following questions to guide your reading and assess your understanding of the content.

What factors of supply and demand led to the shortages of products after Hurricane Katrina?

Natural disasters create massive demand shifts (number of buyers in the market) for certain products: plywood to protect windows, water for drinking and bathing if filtration plants shut down, gas powered generators to provide electricity, etc. The disaster further affects supply (number of sellers and available goods), as producers have a difficult time producing and delivering the product in the disaster area.

How is this severe shortage of products during natural disasters, like Hurricane Katrina reflected in their new price? Discuss and explain your opinion of the “fairness” around the increase in prices of these essential products?

NOT fair: these are necessary products that everyone needs at that time... price gouging makes it difficult for people (particularly low income families) to afford needed supplies before and after a natural disaster.

YES fair: in order to get the products on the shelf - extraordinary efforts have to be made which will cost money - therefore increasing consumer prices. A massive shift in consumer taste and preferences drives the price up. The higher price then serves as a signal to others to produce and deliver more of that product. It also encourages consumers to buy only what they need and not hoard.

Are essential products going to be more available if prices are allowed to rise or if a mayor/governor mandates the prices of these essential products stay at or near the pre natural disaster price?

Essential products will be more available if prices are allowed to rise since it will limit demand to only those who need it, and more suppliers will create the product to make an increased profit.

Directions: For each policy option, determine if it causes an **increase** or **decrease** in price, demand, and supply, and if it causes a shortage or surplus of a good or service.

Policy option	Effect on Price	Effect on Quantity Demanded	Effect on Quantity Supplied	Shortage or Surplus?
Store limit of 2 hand sanitizers per customer	<i>Increase</i>	<i>Increase</i>	<i>Decrease</i>	<i>Shortage</i>
Government declares the maximum price allowed to be charged for gasoline in post-hurricane recovery.	decreases	increases	decreases	shortage
Government declares the minimum price allowed to be paid to labor in post-hurricane recovery.	decreases	increases	decreases	shortage
Rent Control	decreases	increases	decreases	shortage
Minimum Wage	increases	decreases	increases	surplus
Farm Subsidies	decreases	increases	increases	surplus

Analysis:

Explain who benefits and who is harmed by price floors.

Those who get to sell their goods or services at a higher price benefit; however there are fewer sellers who find buyers, thus the overall market is harmed. All consumers are harmed, as they must buy the goods or services at a higher price. Politicians who create and enforce the price floors are popular with producers, as they think it will bring them more profit.

Explain who benefits and who is harmed by price ceilings.

Those who get to buy their goods or services at the lower price will benefit, however there are fewer buyers who find sellers willing to sell at the lower price, thus the overall market is harmed. All sellers are harmed, as they must sell their goods and services at a lower price. Politicians who create and enforce the price ceilings are popular because most consumers think they help, rather than harm.

If economists are generally against price ceilings set below the market equilibrium for the shortages they create, why are such programs as rent control so popular with politicians?

Politicians like programs that are popular with people at large to increase vote counts, not economists per se. Wealthy people often support rent control because they often think it helps the poor. People who are less wealthy like the program because they think they might benefit, when in reality, they suffer from shortages in housing stock that rent control contributes to.

Assess & Reflect:

Directions: Select either assessment option to respond to. If you choose to write a response, do so in the provided space. If you record your response, provide a link to it in the provided space.

Option 1

Select at least one of the lesson's guiding questions. Respond to the question(s) in writing or on video. Include a short reflection that includes your rating for how well you understand the lesson concepts.

Students should use the information they used from the videos and activities to answer.

Option 2

Apply what you learned from the Hurricane Katrina case study to other product shortages such as during the 2020 COVID-19 pandemic.

- Create a dialogue between a parent and child or grandparent and grandchild comparing the pandemic situation to that of Hurricane Katrina. Be sure to include in your dialogue how you would address the problem of product shortages and ways to return product prices to equilibrium.
- Your response can be written or recorded in a video.

Students should use the information they used from the videos and activities to answer.