

Decision Making

LESSON DESCRIPTION AND BACKGROUND

In this lesson, students learn to use a five-step decision-making model. They apply the model in exercises that call for choosing a college and buying a personal computer. The model focuses on identification of problems, alternative possibilities for solving problems, criteria for evaluating those possibilities, and the opportunity cost of the decisions arising from the process. It uses a decision-making grid and basic economic concepts to help students understand the importance of making informed decisions.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Opportunity Cost
- Decision Making
- Scarcity

NATIONAL STANDARDS FOR FINANCIAL LITERACY

- **Standard 2 Buying Goods and Services, Grade 12, Benchmark 1** – Consumer decisions are influenced by the price of a good or service, the price of alternatives, and the consumer's income as well as his or her preferences.

COMMON CORE STATE STANDARDS

- **CCSS.ELA-Literacy.CCRA.R.10** – Read and comprehend complex literary and informational texts independently and proficiently.
- **CCSS.ELA-Literacy.W.9-10.9, CCSS.ELA-Literacy.W.11-12.9** – Draw evidence from literary or informational texts to support analysis, reflection, and research.
- **CCSS.ELA-Literacy.L.9-10.6; CCSS.ELA-Literacy.L.11-12.6** – Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in

gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.

- **CCSS.ELA-Literacy.RH.9-10.4** – Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- **CCSS.ELA-Literacy.RH.11-12.2** – Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

OBJECTIVES

The student will

- explain how scarcity affects economic choices.
- describe the five-step decision-making model.
- use a decision-making grid to make informed choices.

TIME REQUIRED

One 45-minute class period

MATERIALS

- **Slides 3.1 and 3.2**
- **Exercise 3.1: Decision Making and Scarcity**, one copy per student
- **Exercise 3.2: A College for Maria**, one copy per student
- **Exercise 3.3: Buying a New Tablet or Phone**, one copy per student
- Access to a computer lab for **Exercise 3.3**

ADDITIONAL RESOURCES

Visit <https://www.econedlink.org/resources/collection/ffffl-9-12/> to find presentations, interactives and other great technology tools to enhance your teaching of this lesson.

PROCEDURE

1. Write “There is no such thing as a free lunch” on the board. Tell the class that the statement expresses a basic principle of making good decisions. Then ask the following questions.
 - a. What do you think this statement means? **(Discuss responses.)**
 - b. How could this statement be true? If somebody takes you out and buys you lunch, that’s a free lunch, isn’t it? **(Building on students’ responses as much as possible, explain that a person who gets invited to lunch could choose not to go to lunch. If she decided not to go to lunch, she could use her lunch time for some other purpose. She gives up that other use of her time if she does go to lunch. If she accepts the offer of lunch, her “free” lunch costs her that other use of her time. In that sense, it isn’t a free lunch.)**
 - c. But what about other freebies—the free samples that are sometimes handed out in grocery stores, for example? Those items are free, aren’t they? **(Building again on students’ responses as much as possible, explain that samples passed out to shoppers are not free. The resources that go into providing samples—e.g., the salary paid to an employee who stands near the meat counter and treats customers to little chunks of grilled bratwurst—could be put to other uses. The employee handing out the bratwurst could be stocking shelves or ringing up sales at the checkout counter instead. Using that employee’s time and effort to provide the “free” sample is therefore costly. The cost is the alternative use of resources that has been forgone.)**
 - d. What do these two examples—the lunch and the bratwurst sample—have in common? **(In each case, the cost arises as a result of a choice somebody makes: the choice to accept the invitation to lunch, the choice to use an employee’s time for distributing samples. These are not isolated examples. Every choice involves a cost.)**
2. Summarize the discussion to this point: A cost of some sort arises every time anybody makes a choice. Moreover, people must make choices, despite the costs involved. Why? The answer has to do with the concept of scarcity. The next step in the lesson examines that concept.
3. Give each student a copy of **Exercise 3.1: Decision Making and Scarcity**. Ask the students to read the passage and answer the questions that follow.
4. When the students have answered the questions, review their answers in class. Make sure they understand the relationship between scarcity and the need to make good economic decisions.
 - a. Why is there no such thing as a free lunch? **(Because of scarcity. Scarcity means that people can’t have everything they want. Their wants are unlimited, but the resources available to provide for these wants are limited. Because of this imbalance, people must make choices, and there is an opportunity cost associated with every choice. Thus, there can be no such thing as a free lunch—not even when somebody else pays the bill.)**
 - b. Give some examples of natural resources, human resources, and capital resources. **(Examples of natural resources include water, oil, minerals; examples of human resources include physical strength, intelligence, agility, organizational ability; examples of capital resources include machinery, equipment, tools, and buildings.)**
 - c. Why do economists NOT view money as capital? **(Money is not a productive resource. It is used to make the exchange of goods and services easier than it otherwise could be. Printing more money would not increase the goods and services available to people.)**
 - d. What is an opportunity cost? **(The next-best alternative a person gives up in making a choice.)**
5. Display **Slide 3.1**. Go over each of the five steps. Provide clarification as necessary, perhaps by making reference to ordinary decisions—e.g., “what should I do on Friday night” or “what type of car should I buy?” The goal here is to make sure that students understand how to use this model.

6. Display **Slide 3.2**. Explain that people can use a decision-making grid to make decisions and thus solve problems. The grid provides a format for listing the alternative possibilities (the decisions that might be made) and the criteria to be used in evaluating the alternatives. The criteria may be weighted (i.e., judged more or less important) on the grid in various ways—e.g., by using plus signs (+), minus signs (-), or double plus or minus signs to indicate level of importance. The grid provides a space in which the final decision may be recorded after the alternatives have been evaluated. Examining the elements of the problem on the grid may also help people to identify the opportunity cost of the final decision. The opportunity cost will be the highest-ranked alternative that is not chosen.

Ask the students to suggest some problems about which they may wish to make a decision. (**Answers will vary. Which video game to buy; which movie to watch; which shoes to purchase; which bank to use; which pet to have; etc.**) Select one of these problems and work with it—listing alternatives and criteria to be used in evaluating the alternatives. Tell the students that, in working through such a decision, different people might weight the criteria differently; their final decisions might differ accordingly, based on the different weightings.

7. Tell the students that they will now get a chance to help someone named Maria make a decision about a problem that they might face some day: Which college to attend? Give each student a copy of **Exercise 3.2: Personal Decision Making**.

8. Ask the students to read through **Exercise 3.2** and complete the decision-making grid to help Maria make a decision based on her criteria. Ask the students not to move to Step 5 until they have completed the grid and identified the best decision. When they have finished, ask them what they think Maria decided. Ask the students to answer the questions at the end of the exercise. When they have finished, discuss the answers.

a. Why is the decision-making model important? (**It helps a person make better, more informed decisions by evaluating the**

alternative possibilities against important criteria.)

- b. Are there any additional criteria that Maria did not consider that you feel are important in choosing a college? (**Answers might include the social life, the number of friends who choose that college, extra-curricular activities, employment opportunities for graduates, the safety of the campus, their parents' view, etc.**)
- c. Do you agree with Maria's choice? Why or why not? (**Answers will vary. Given Maria's criteria, she seems to have made a good decision. Of course, if the students' criteria were different from Maria's, then their decisions might differ. Students might also differ in the weights they would assign to each of the criteria that were important to Maria.**)

CLOSURE

1. Ask the students how many times they have made a choice they later regretted. (**Answers will vary, but everyone makes choices that he or she would later wish to change**). Ask the students if they think they might have made a better decision if they had used a decision-making model and a decision-making grid.

2. Remind the students that they will need to make decisions continually—in their personal lives, at work, and in the voting booth. Using the steps provided in this lesson (determining the problem, listing the alternatives that might be available, weighing the criteria to be used in evaluating the possible alternatives, etc.) will help them make the best decision. Also, remind them that predicting the future is not a perfect science, but gathering enough information to make informed choices will help them become better decision makers.

ASSESSMENT

Give each student a copy of **Exercise 3.3: Buying a New Tablet or Phone**. The students will have to use the internet to complete the exercise. As appropriate, reports should include copies of advertisements that show product prices and features.

SLIDE 3.1

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Five Step Decision Making Process

1. Define the Problem
2. List Your Alternatives
3. State Your Criteria
4. Evaluate Your Alternatives
5. Make a Decision

Decision Making

SLIDE 3.2

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A Decision-Making Grid

The Problem: _____

Criteria →					
↓ Alternatives					

The Decision: _____

Decision Making

Decision Making and Scarcity

Why do we need to make decisions? Scarcity is a fundamental condition of all economic systems. Because of scarcity, we must make choices. Every choice involves an opportunity cost. The opportunity cost of a decision is the next-best alternative that is given up. It is the value of what you give up in order to get what you want.

A fundamental lesson in life is that there is no such thing as a free lunch. Individuals, businesses, governments, and economic systems all face scarcity. Because of scarcity, we must make choices, and the consequence of every choice is that something else is not chosen. This means that for every personal, workplace, and governmental decision there is a cost—the something else not chosen. A wise decision involves weighing the benefits and costs of the alternatives from which individuals must choose.

There is no getting around the condition of scarcity, or the choices and costs it creates. We face scarcity because our resources are limited and our economic wants are unlimited. We only have so many human resources (the physical, intellectual and creative talents of people), natural resources (gifts of nature such as water and natural gas) and capital resources (man-made goods such as tools and factories) in this world. Wants always outstrip the limited resources available to satisfy them. Without scarcity, it would be a different world; everything you wanted would be freely available.

More money does not eliminate or even reduce scarcity. Printing more money does not mean that more stuff has been produced, nor does it mean that we are all better off. Imagine how easy it would be to improve our living standards if all we had to do was print more money. (None of us would have to go to work if this was all it took to be better off!)

However, this is not the case and we face scarcity every day. People's wants are never fully satisfied. No matter what we already have, we would like to have more. The United States is one of the richest nations in the world, but poverty still exists. Even wealthy individuals desire more. Few of us are ever fully satisfied with our education, health care, and standard of living. Most everyone would like to have a higher income. Our wants are limited only by our imagination. Wants also change over time. Twenty years ago, few, if any, Americans had cellphones with hi-definition cameras and video, touch-screen tablets, car navigation systems, or 4K televisions. Who knows what the next twenty years will look like?

We need to make sure we are equipped with the information needed to make the best choices given scarcity. By analyzing and weighing the benefits and costs of choices, individuals can make informed decisions that maximize their satisfaction.

A College for Maria

Maria Delgado will graduate from high school this spring. She plans to attend college, but she does not know which college to attend. She is using a decision making model in order to make a better choice. Let's work through Maria's decision, using the five-step decision-making model.

Step 1: Define the Problem

Maria must recognize the problem. She knows that all colleges and universities are not alike, and she must choose the one that is right for her. She plans to major in marketing, a business field that focuses on promoting and selling products or services.

Step 2: List the Alternatives

Maria has found three main alternatives. State U. is a big university with 30,000 students, and it offers both undergraduate and graduate programs. Many undergraduate classes are very large; some have more than 300 students. The tuition is reasonable. The business school and the marketing program are highly ranked nationally. State U is located 150 miles from Maria's hometown.

Local Community College is a two-year college only a few miles away from Maria's house. Its classes are smaller than State U's, averaging about 40 students. There are marketing classes. While some faculty members are outstanding, Maria has heard that most faculty member at Local Community College do not have Ph.D. degrees, the highest academic degree awarded at most colleges. Most faculty members at State U. have Ph.D. degrees. The tuition for LCC is low, and if she decides on LCC, Maria could keep her part-time job.

Private College, which has only 3,000 students, is located 200 miles from Maria's hometown in a neighboring state. The classes are small, and the students get a lot of individual attention and help. The college offers marketing courses. Its admission standards are high, but Maria is an outstanding student and thinks she has a good chance of being accepted. Tuition is expensive. Private College gives scholarships and loans, but the cost would still be higher than the cost at State U.

Step 3: Identify Your Criteria

For any choice, your criteria are important characteristics by which the alternative possibilities may be judged. People often differ in the criteria they consider important in making choices.

Maria's most important criteria are these:

- Low-cost tuition, because her family is not wealthy.
- High-quality education, particularly in marketing.
- Small class size and personal attention.
- Close location to home, because she feels she would miss her friends if she were far away.

Step 4: Evaluate Your Alternatives

Maria must now evaluate her alternatives against her criteria. She has decided to use the decision-making grid shown at the end of this exercise. She will use a "+" and "-" system to evaluate each alternative. One plus sign is positive and two plus signs are even better—very positive. A minus sign is negative. Two minus signs are very negative. Complete the grid before going to Step 5.

Step 5: Make a Decision

Maria decided to attend Local Community College for two years. Cost is very important to her. By attending the community college while working part-time, she might even be able to save some money. She felt the private college had the best program for her, but it is too expensive and too far from home. The community college had the most pluses. Low cost and closeness to home were very important to Maria, and the community college ranked highest on these criteria.

A longer-term option for Maria may be to save money and apply for scholarships during the two years that she attends the community college. If she does this, she may be able to attend the private school for her final two years of college.

Maria's Decision-Making Grid

Based on the information in this exercise, use the grid to help Maria make a decision. Then answer the questions that follow.

What is the problem?

Fill in the boxes with "+", "++", or "-", "--", as you think Maria might have decided.

	CRITERIA			
ALTERNATIVES	<i>Low Cost</i>	<i>Quality Programs</i>	<i>Personal Attention</i>	<i>Close to Home</i>
<i>State U.</i>				
<i>Local Community College</i>				
<i>Private College</i>				

Maria's Decision _____



Questions

- Why is the decision-making model important?
- Are there any additional criteria that Maria did not consider that you feel are important in choosing a college?
- Do you agree with Maria's choice? Why or why not?

Buying a New Tablet or Phone

You can use the decision-making model and grid for any consumer decision. Assume you want to buy a tablet or a phone. Fill out the decision-making grid that follows and decide which tablet or phone to buy. Find the alternative models at electronics superstores, computer stores or online stores. Develop your criteria, which could include size, cost, memory, disk capacity, speed, audio and video capabilities, etc. Choose the criteria that are most important to you; then fill out the grid; make a choice; and justify it.

The Problem:

Criteria   Alternatives					

Your Decision and Justification: