LESSON 3

Decision Making

LESSON DESCRIPTION AND BACKGROUND

The students learn to use a particular model for making decisions. They apply the model in exercises that call for choosing a college and buying a personal computer. The model focuses on explicit identification of problems, alternative possibilities for solving problems, criteria for evaluating those possibilities, and the opportunity cost of the decisions arising from the process. The need to make decisions is shown to be based in the condition of scarcity.

Lesson 3 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Choice
- Opportunity cost
- Decision-making model
- Scarcity

OBJECTIVES

At the end of this lesson, the student will be able to:

- Explain how **scarcity** affects economic **choices**.
- Describe the five-step **decision-making model**.
- Use a decision-making grid in making economic choices.

TIME REQUIRED

One 45-minute class period

MATERIALS

- A transparency of **Visual 3.1** and **3.2**
- A copy for each student of **Exercise 3.1**, **3.2**, and **3.3** from the *Student Workbook*

ADDITIONAL RESOURCES

To download visuals, find related lessons, correlations to state standards, interactives, and more visit http://fffl.councilforeconed.org/9-12/lesson3.

PROCEDURE

1. Write "There is no such thing as a free lunch" on the board. Call on a student to read the statement to the class. Tell the class that the statement expresses a basic principle of economics. Then turn to an examination of the statement. Ask:

a. What do you think this statement means? ***(Discuss responses briefly.)***

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 is to examine that concept.

3. Give each student a copy of **Exercise 3.1** from the *Student Workbook*. Ask the students to read the passage and answer the questions that follow.

4. When the students have answered the questions, go over 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. What is capital? ***(Goods used to produce other goods and services.)***

d. 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.)***

e. What is an opportunity cost? ***(The next-best alternative a person gives up in making a choice.)***

5. Display **Visual 3.1**. Go over each of the five steps. Provide clarification as necessary, perhaps by 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 **Visual 3.2**. Explain that people can use a decision-making grid to make decisions and thus solve problems. For any such case, 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. And the grid provides a space in which the final decision may be recorded after the alternatives have been evaluated. Formatting 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.

7. Ask the students to suggest some problems about which they may wish to make a decision. ***(Responses might include 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.

8. 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** from the *Student Workbook*.

9. Ask the students to read through **Exercise 3.2** and fill in 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 filled out the grid and made a decision. When they have finished, ask them what they think Maria decided. Ask the students to read Step 5 and 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. They will be helped in these cases if they become skilled at identifying the problem in question, listing the alternatives that might be available, weighing the criteria to be used in evaluating the possible alternatives, and using those criteria to make the best decision. A decision-making model is valuable because it makes this process explicit, reminding people to pay attention to each step along the way.

ASSESSMENT

Give each student a copy of **Exercise 3.3** from the *Student Workbook*. Assign this exercise as homework; the students will have to use the Internet and/or visit stores to complete the exercise. As appropriate, the homework reports may include copies of advertisements that show product prices and features.

EXTENSION

Use accounts from a local newspaper to identify a key policy issue that faces local public officials. Ask the students to solve the problem, using a decision-making grid to record their thinking at each step along the way. The steps should include considering the alternatives, establishing and weighting appropriate criteria, and making a final decision.

Ask the students to write up their final decisions. Optional: They may send their decisions (or make a presentation of them) to the public officials.

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.

VISUAL
3.2

A Decision-Making Grid

The Problem: _____

_____

Criteria → / ↓ Alternatives					

The Decision: _____

_____