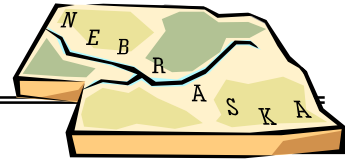


Lesson 3: What's In It for Me?



Overview: In this lesson students will examine both the benefits and costs that are associated with owning and operating a business. By completing a decision-making grid, students will realize that being your own boss involves trade-offs. In addition to this students will examine the incentives for starting a business as well as the opportunity costs involved.

Economic Concepts:

Benefits
Costs
Decision Making
Incentives
Opportunity Cost
Trade-offs

Objectives: The students will be able to:

- 1) List the incentives that could be considered when starting a new business
- 2) Identify the costs and benefits of business ownership
- 3) Name the trade-offs between business ownership and employment
- 4) Define opportunity cost

Nebraska Standards:

SS/H—8.3.5, 12.4.19, 12.4.26, 12.4.27

R/W—005.01D, 005.02.A, 005.02D, 005.03A, 006.01B, 006.02A1,
006.02D, 006.03A

Mathematics—005.02C, 005.05B, 006.02C

Materials:

- 1) Small prizes for winners of small group activity
- 2) A timing device to time small group activity
- 3) One copy of Activity Sheet 3-1 for each student

Time required: 1 or 2 class periods

Procedure:

- 1) Divide the students into groups of 3 or 4 and give them the following instructions: a.) List reasons why a person would want to start their own business; b.) Only one person is allowed to write for the group; c.) You will have one minute to complete this task; d.) Try to see if your group can come up with the most written reasons.
- 2) Time the exercise and after one minute tell the groups to stop writing. Then ask each group how many reasons they were able to list. Ask only for the number of reasons, not the reasons they listed. Record the results for each group on the board.
- 3) Tell the students that you are going to do another round similar to the first round but with two changes. First, they are to use the backside of their paper and they cannot use any of the reasons they listed during the first round. Second, each member of the group that lists the most new reasons will receive a prize. (show prize that the members of the group will receive)
- 4) Time the exercise and after one minute tell the groups to stop writing. Ask for a representative from each group to record their reasons from rounds one and two on the board. (Have all the group representatives record their results at the same time to save both time and to keep groups from trying to add reasons while one group is recording)
- 5) Determine which group had the most new reasons in the second round and award the prizes. Working under the assumption that most groups had more reasons listed for the second round than for the first, ask the following: Why were you able to come up with more reasons during the second round than you were the first? (*Because we were competing for a prize*). If the groups were unable to come up with more reasons during round two say: I noticed that you seemed to work much harder during the second round than the first, why? (*The answer should have something to do with receiving the prize*)
- 6) Explain to the students that the prize they were competing for is known as an **incentive** just like the reasons listed on the board are incentives for people to go into business for themselves. Write the following definition on the board: *Incentives are factors that motivate and influence human behavior.* Then explain that economic incentives

usually influence people to go into business for themselves to either achieve financial or material gain or to avoid financial or material loss. Then ask the students to identify the economic incentives from their lists on the board.

- 7) After identifying the economic incentives from their lists, explain to the class that even though there may be a great deal to gain from starting your own business there are also some things that must be given up. Giving up one thing, such as a job working for someone else, to have another, such as operating your own business, involves a **trade-off**. Write the following definition on the board: *Trade-offs involve accepting or choosing less of one thing to get more of something else.*
- 8) Tell the students the following: *Because a decision to start their own business will involve making trade-offs, an entrepreneur needs to weigh the benefits (what they will gain) against the costs (what they will give up) of each alternative they are considering. In order to receive the most satisfaction from their decision, they should choose the alternative that gives them the most benefits and the least costs based on their criteria.*
- 9) Hand out Activity Sheet 3-1 and tell the students that you are going to do a brief activity to illustrate how a potential entrepreneur may weigh costs and benefits to determine if they should start their own business. Read through the directions with the students and ask if they have any questions. If there are no questions or after all questions have been answered, have the students complete the worksheet.
- 10) After the students have completed the worksheet, ask the following questions: a.) What alternative should Indy Pendant choose to receive the greatest satisfaction? (Alternative A), Sue Curity? (Alternative C); b.) Both women used the same criteria to evaluate the same alternatives so why did they choose different alternatives? (Because of their different values they weighed the criteria and alternatives differently).
- 11) Explain to the class that, like these two women, they need to consider their own values when making decisions to gain the most satisfaction from their decision. Then ask: What alternative would be the second best choice for Indy? (Alternative C), for Sue? (Alternative A). Tell the students that if both women chose the alternative in Step 10, the second best alternatives would be their **opportunity cost**. (Point of emphasis: The opportunity cost is

only the second best choice, not both alternatives that were not chosen) Write the following definition on the board: *opportunity cost is the forgone benefit of the next best alternative when scarce resources are used for one purpose rather than another.*

- 12) Conclude the lesson by reviewing the following points: a.) Entrepreneurs must analyze the costs and benefits of going into business; b.) Make trade-offs that will result in the greatest satisfaction from the decision they make; and c.) Give something up for the alternative they choose and that something is the opportunity cost of making their decision.

Assessment:

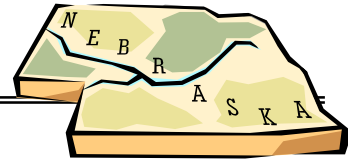
- 1) Juan Trey Preneur is considering starting his own business and has evaluated three different alternatives. According to his criteria he has decided that the best option for him is to keep his current job and operate his business on a part-time basis in the evenings and on weekends. His next best alternative would be to quit his job and start his business full time, and his third best alternative would be to quit his current job and join a partnership with his father-in-law. Based on this information, Juan's opportunity cost of his decision is ...
- A. going into partnership with his father-in-law.
 - B. opening his business on a part-time basis while working full time.
 - C. the sleep he will lose by trying to do two things at once.
 - D. operating his own business on a full time basis.*
- 2) Factors that motivate and influence human behavior are called ...
- A. incentives.*
 - B. trade-offs.
 - C. opportunity costs.
 - D. alternatives.
- 3) Your sister lives in South Dakota and works for an auto body shop so you decide to call her and let her know how your school year is going. During your conversation she tells you that she is considering quitting her job and opening her own body shop because she is sure she can make more money. After you hang up you decide to write her a letter urging her to make a rational decision rather than an emotional decision. Compose a letter to

your sister and offer her advice on how to make a sound economic decision. Make sure to include something about comparing costs against benefits and the trade-offs she would need to make in order to be the most satisfied with her final decision. Use the proper format for a business letter and standard conventions of writing when composing your letter.

Extension Activity:

Have students record any decisions that they make during the next 24 hours in a journal or notebook. For each decision they make instruct them to record what they had to decide between, what they chose, and what the opportunity cost of their choice was. Tell the students that these records will be displayed around the classroom so they do not need to include their name on the records they turn. During the next class session collect the records, display them around the room, and then discuss any questions or comments students may have about the activity.

Activity 3-1



What is the Best Choice?

Instructions: Two young women are considering starting their own business. Indiana Pendant (or Indy as she is known to her friends) and Sue Curity are discussing their potential businesses with each and decide that they essentially have three options to consider and that five criteria are important for determining the best option. Using the information for each woman below, complete the decision-making grid and list which alternative each woman would choose from her first choice to her third choice.

Indy Pendant: Indy ran for and was elected president of her class and was also a member of her schools speech and drama teams as well as participated in student government for her school. Despite all of her activities she still managed to get her homework completed on time for her classes and was able to maintain a solid grade point average. In order to make the “right” decision about starting her own business, she decided to rank the five criteria from one to five with one being the most important and five the least. She then ranked the three options from one to three with one being the best and three the least for each of the criteria. The results of her ranking are included in the decision-making grid below. Complete the grid for her by multiplying the rank of the criteria by the rank of each option and record it in the blank line. Then add up the answers in each row to get a total for each option. The option with the lowest total would be her top choice and the highest total would be her last choice. An example is shown below.

	Criteria 1 3	Criteria 2 5	Criteria 3 1	Criteria 4 4	Criteria 5 2	Total Points
Alternative 1	1 <u>3</u>	3 <u>15</u>	3 <u>3</u>	2 <u>8</u>	2 <u>4</u>	33
Alternative 2	3 <u>9</u>	2 <u>10</u>	1 <u>1</u>	1 <u>4</u>	1 <u>2</u>	26
Alternative 3	2 <u>6</u>	1 <u>5</u>	2 <u>2</u>	3 <u>12</u>	3 <u>6</u>	31

Indy Pendant’s decision-making grid with her rankings is as follows:

	Steady Income 4	Unlimited Earnings 2	Time With Family/Friends 5	Freedom to make decisions 3	Responsibility for Success 1	Total Points
A) Full time operation of business	2 _____	1 _____	2 _____	1 _____	1 _____	
B) Work part-time and run business part-time	3 _____	2 _____	3 _____	2 _____	2 _____	
C) Work full time and forget business	1 _____	3 _____	1 _____	3 _____	3 _____	

Based on this information which alternative will Indy choose? _____

Activity 3-1(cont.)

Sue Curity: Like Indy, Sue was a very good student in school who worked hard and all of her assignments completed on time. She received good grades in all of her classes and graduated with a high grade point average. However, because she felt it was important to do well in school she chose not to participate in any extra curricular activities in school but did have a part-time job so she could save money for college. She knew that having a part-time job would take away time from her homework and if she were involved in extra activities at school, she would not be able to spend as much time with her friends as she would like. Her decision-making grid with her rankings is as follows:

	Steady Income 2	Unlimited Earnings 3	Time With Family/Friends 1	Freedom to make decisions 5	Responsibility for Success 4	Total Points
A) Full time operation of business	3 _____	2 _____	2 _____	2 _____	1 _____	
B) Work part-time and run business part-time	2 _____	3 _____	3 _____	3 _____	3 _____	
C) Work full time and forget business	1 _____	1 _____	1 _____	1 _____	2 _____	

Based on this information which alternative will Sue choose? _____

In the space below explain why the women would choose different alternatives when they used the same criteria and alternatives to reach their decision.