Regulate — Government Interventions

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SUBJECT(S): Economics

GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:

In this lesson, we will look at government intervention into the marketplace. Building on previous lessons (i.e. public goods, externalities, monopolies), students will think about the rationale for government intervention. Using the article "Driver Alert: Car Insurance Will Cost You," students will use car insurance as a case study for government regulation. Finally, students will look quantitatively at the impacts of one particular regulation, a price ceiling, on both supply and demand.

NBEA STANDARD(S):

- Economics, II. Economic Systems
- Economics, VII. The Role Of Government

RELATED ARTICLES:

- "Why the Vaping Business Is Going Up in Smoke"
- "GDP: The Rock Star of Economic Indicators"
- "Exploring Immigration: Will the U.S. See Reform in 2019?"
- "Epic Games vs. Apple: What's Next for the App Economy?"
- "Driver Alert: Car Insurance Will Cost You"
- "5 Takeaways from the Disney-Fox Merger"

Objectives/Purposes: The purpose of this lesson is for students to understand how and why governments intervene in the marketplace.

- Students will understand the relationship between externalities and government regulation.
- Students can explain the rationale behind government-mandated insurance.
- Students will think about how government intervention on price can benefit society.

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Access to Chalkboard/Whiteboard
- Butcher Paper
- Markers

Activity:

The lesson is divided into five parts: (1) Introduction, (2) Guided Reading, (3) Class Discussion, (4) Exploration Activity, and finally (5) Closing

1. Introduction (5-15 mins)

Introduce today's lesson with a brief overview of previous lessons in this unit. Remind students about public goods (non-rival and non-excludable). Remind students about positive and negative externalities — and the inability of price to accurately reflect these costs and benefits. Finally, remind students of their discussion on monopoly markets, and their effect on customers.

Next, ask students what can be done about these problems. How do we make sure that public goods are provided? How do we limit negative externalities? How do we protect consumers from monopoly markets? This part of the lesson can take as much, or as little, time as you want. If the discussion is lively, keep each question distinct. Have students first discuss public goods. Is there a need to protect them? Who will provide them? How do you deal with free riders (i.e. people who benefit, but do not pay)? Segue from public goods into externalities. A public good usually has positive externalities. But what about negative externalities? How do we prevent, or

limit, costs that are not reflected in price? What do we do about a polluting company, for example? Finally, ask students about the monopoly example from the previous lesson. Demonstrate how monopolies might hurt consumers (i.e. why should a company make concessions to customers when customers have *no other choice*?). This can prompt a discussion about power asymmetries in markets.

An alternative entry into regulation is through laws. Ask students why laws exist. What kinds of laws do they deal with on a daily basis? Next, shift the focus onto businesses. What kinds of laws apply to businesses? Encourage students to think about issues of safety and consumer protection. Perhaps even talk about lawsuits leading to legislation. Bring up issues of subsidy — of the government providing support to companies that otherwise could not stay in business. Why would the government provide subsidies?

2. Guided Reading (5-10 mins)

Once students are thinking about government intervention into the market, have students read through the article, "Driver Alert: Car Insurance Will Cost You."

3. Class Discussion (1-5 mins)

Once students have finished reading, encourage students to briefly summarize the article. Next, ask students to think about car insurance. Why is car insurance mandatory?

After students provide some initial responses, walk students through a hypothetical example. What happens if someone gets into an accident without insurance? The uninsured driver wrecks his car and another driver's car. The other driver is injured and must go to the hospital. Who will pay for the other driver's car? Who will pay for their medical expenses? Encourage students to see these costs as *negative externalities*. By mandating insurance, the government insures that all negative costs are accounted for—everyone has coverage, so the cost of accidents will be covered.

4. Exploration Activity

To continue the discussion on government regulation, have students work through Worksheet 2 Cleaning the Floor. This worksheet will introduce students to the concept of a *price ceiling,* a government regulation that prevents companies from raising the prices on certain goods. Students will be encouraged to think about how price ceilings protect consumer interests at businesses' expense.

5. Closing (1-5 mins)

Close the discussion by reminding students that governments often intervene in the economy to try and solve problems. Remind students of the types of problems covered in this unit: public goods, externalities, monopolies.

Tying It All Together:

Assessment

Use the provided worksheet to assess students' understanding of a price floor. In particular, questions 7 and 8 get to the heart of this lesson. Students should recognize that the government intervenes to try and protect consumers (by keeping prices low). However, economic theory suggests that this will create a shortage. People will demand more gasoline than stations are willing to supply.

What Worked and What I Would Do Differently:

This lesson works best when paired with lessons on public goods and externalities. If students understand how public goods encourage free riders, they already understand one of the largest motivations for government regulation. Similarly, if students recognize why societies benefit from removing externalities, they have a strong understanding of another piece of the regulatory puzzle.