**LESSON 3**

**WHAT SHALL I PRODUCE?**

This lesson will encompass making a product as a class project. By working together, students will learn about all the steps needed to successfully design, produce and sell a product. In later lessons, the students will branch out on their own to develop a good or service. In many instances teachers and students have already decided what product to produce. For example, it may be a tradition for students in a particular class or grade level to produce and sell chocolate chip cookies each year. Or, the teacher may simply have a favorite craft item in mind for the class to produce. This certainly simplifies the situation!

However, teachers should seriously consider involving their students in deciding what product to make. There are several compelling reasons for this. First, by taking part in the decision-making process, students identify more strongly with the project. They sense that it really is their project, and they develop an even stronger incentive for making the business succeed.

Second, getting students involved in the decision-making process adds a very important element of realism to the project, since it forces students to consider the desires of potential consumers. In other words, students learn that in order to be successful, a business must satisfy the wants of consumers. Simply announcing the product to the class shortcuts this entrepreneurial reasoning.

A good alternative for teachers who already know what product they want their students to produce, is to let the students determine the particular **type** of product. For example, a teacher who wants her class to bake and sell cookies can use Lesson 3 activities to help the students determine what kind of cookie. If the teacher chooses candles, the students can determine the style, color, and shape that they think will meet consumer demand.

In this lesson, you will determine exactly what product the classroom business will produce. Many economics and business concepts are introduced to your students. Teachers have found it very helpful to teach many of these basic concepts before beginning the actual business project. This reduces the number of new concepts the students must learn, and instead allows students to focus on how the concepts relate to the classroom business situation.

Teachers who already have determined the exact product (e.g., type, shape, color, flavor, etc.) for their business project should teach the economic concepts in this section, and then skip to Lesson 4.

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**Teaching Objectives**

The teaching objectives are fully described below. Under the objectives are listed the economic concepts and specific activities required to accomplish each objective. Specific questions to ask students and helpful teaching tips are also listed.

Important Concepts

**Business** – a place that produces and/or sells goods and services

**Consumer** – someone who buys goods and services

**Entrepreneur** – someone who takes the risk to start a business

**Goods** – things that people want that you can hold or touch

**Producers** – a business or person who provides (makes) a good or service for consumers

**Service** – something that a business or person does for someone else

**OBJECTIVE 1: Identify Products that the Class Could Produce and Sell**

**Specific Teaching Activities**

Discuss what a business is with your students. Have students give examples of businesses.

Discuss the term "entrepreneur." Give examples of past and present entrepreneurs, or read a book that describes the successful business ventures of a famous entrepreneur.

Bring two or three products (goods) to class that could be produced in your business project.

Ask the class if they would like to be entrepreneurs and earn some money by starting a business which sells one of these products. Invite discussion about which of the two or three products to produce. Since there may be some disagreement, initiate a decision-making exercise (Objective 2 below) to reach a consensus.

**Questions to Ask Students**

Are these products a good or a service? (*Usually a good although students may want to provide a service. Sometimes a class can provide a service with their product. For example, for a fee, students can wrap and/or deliver customer purchases.)*

What do we call people who will buy our product? *(Consumers)*

What do we call a person or business who provides a good or service to consumers? (*Producer)*

What is the special name for a person who takes the risk to start a business? (*Entrepreneur*)

Write this sentence on the board: Businesses make goods for consumers. Underline the word "make." What word could we use instead of "make”? (*Produce)*

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**Teaching Tips**

Bring labor-intensive products that will involve most of the class in the production.

Have your students begin an economics/business notebook. In it students can define vocabulary, write essays about the business, paste magazine pictures that represent various concepts, record business data, keep a business diary, etc.

**OBJECTIVE 2: Use a Decision-Making Grid to Help Determine What Product to Produce**

Important Concepts

**Criteria** – important things to consider when making a decision

**Opportunity Cost** – the most valuable alternative you give up when you make a choice

**Profit** – the income an entrepreneur makes by running a successful business; the money left over after subtracting all the costs (expenses) from the sales revenue (income)

**Risk** – the chance entrepreneurs take that a business will not be successful

**Specific Teaching Activities**

Use the five step decision-making process described below to choose which product to produce. Use the **Decision-Making Grid, Form 3-1**

**Step 1. Define the Problem**

This part is easy—what product should we produce?

**Step 2. List the Alternatives**

Simply list the two or three potential products from Objective 1 on the left side of the Decision-Making Chart.

**Step 3. Define and List the Criteria**

With your class, discuss important criteria and list the most important ones across the top of the Chart. Criteria can include Can We Produce It?, Will Consumers Like It?, Affordable for Consumers?, Safe for the Environment?, Profitable to Produce? Okay with the Principal?, and Very Risky? Students may suggest other criteria: Is It Fun to Produce?, Can All Students Participate?, Enough Time to Produce?,

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**Step 4. Use the Criteria to Evaluate the Alternatives**

Evaluate each product to see how well it “fits” each of the criteria. Put a number score into each box according to the following scale:

 Fits Very Well – 5

 Fits Fairly Well – 4

 Fits Somewhat – 3

 Doesn’t Fit Very Well – 2

 Doesn’t Fit Well at All - 1

For example, in the sample Decision-Making Grid (Figure 1), popcorn is usually very profitable to Produce, so a 5 is placed in the appropriate box. However, students may say that popcorn is not that Fun to Produce, so in this box a 2 could be the score. If the students learn that the principal will not let them sell darts and dart boards, then a 1 should be placed In the Okay With Principal box.

**Step 5**. Make a Decision

After placing number scores in each box, add across the rows to determine a score for each product. Compare scores and use them to help make your product choice.

Be careful! The highest score may not be your final choice. It all depends on the importance the class attaches to each criterion. In our example, even though popcorn earned a higher score than candles, the students may still want to choose candles if the "Fun to Produce" criterion is the most important to them. Since we assumed that the principal vetoes the darts and dart board project, the students would not choose that option, even if it scored the most points.

**Questions to Ask Students**

**What are "criteria?"** (Important things to consider when making a decision) What are the criteria we used in making our decision? (Discuss the criteria the class listed on their Decision Chart)

**What is the opportunity cost of choosing our particular product over the others?** (The value of our next best alternative.) In the example, if the candles were chosen, then the opportunity cost would be not getting to produce popcorn. Because of the principal, the dart/dartboard project is no longer an option. The crucial concept to teach students is that there is an opportunity cost to every producer decision. Producers and entrepreneurs must make choices how to use their scarce productive resources. A decision to produce one product means giving up the opportunity to produce another.) There is only one opportunity cost from a group of alternatives.

**What is profit?** (The income remaining after subtracting all costs from revenues; the money we will earn if we have successful business) Emphasize that the more a business satisfies the wants of consumers, the more profitable it will be. Successful entrepreneurs are skilled in anticipating and providing for the most urgent wants of consumers.

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**Teacher Suggested Answer Key**

**Form 3-1**

**Decision-Making Grid**

**Criteria**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Alternatives** | **Profitable** | **Fun to Produce** | **Okay with Principal** | **Affordable to Consumers** | **Can We Produce It?** | **Total****Points** |
| **Popcorn** | **5** | **2** | **5** | **5** | **5** | **22** |
| **Darts/Board** | **3** | **4** | **1** | **3** | **3** | **14** |
| **Candles** | **3** | **5** | **5** | **3** | **4** | **20** |
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**Form 3-1**

**Decision-Making Grid**

**Criteria**

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| --- | --- | --- | --- | --- | --- | --- |
| **Alternatives** |  |  |  |  |  | **Points** |
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