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Instructor's Guide to Understanding Today's Economy

Enclosed is your Students' Workbook, *Understanding Today's Economy.* The analysis is brief and simple, designed to give you enough time to summarize its major points and critique them.

Completion of the analysis takes about four class periods. Activities (projects and transparencies*) are short and are designed to test student progress.

Below are suggestions for developing *Understanding Today's Economy.* It includes suggested answers, and break-off points for your summaries.

Project #1

land	**labor**	**capital**	
river	teacher	computer	cornfield
wild flowers	manager	fertilizer	desk
vacant lot	salesperson	hammer	cow
wild deer	CEO	taxicab	typewriter
iron ore	foreman		

Transparency 2: used as reference.

Transparency 3: 8, 8, 0

Transparency 4: 8, 8, 0

Transparency 5: 7 land: 7, 7, 0 F land: 8, 7, 1

Transparency 6: used as reference.

*Transparencies can easily be made from the maps in the booklet.

Project 2:

1. wealth: 6	**2.** wealth: 7	**3.** wealth: 8
wages: 6	wages: 6	wages: 6
rent: 0	rent: 1	rent: 2

Review after page 8:

As more land is used, wages go down, as a proportion of the wealth produced, and rent increases. However, wages may not go down **as an amount**. Increased population allows for more cooperation, and thus more efficient production. Thus, even though rent takes a greater **proportion** of the total, the amount of wages may go up.

Capital has not entered our model yet, in order to simplify the process. It can be shown, however, that the return to capital (interest) also depends upon the margin of production. Capital owners have the alternative of using their capital on land that is free, and keeping all the increase in production that their capital enables them to get. If they want to employ their capital on better land, they must pay rent. The **difference** between the increase of capital on the better land, and the increase on the free land, is paid to the landowner as part of rent. Thus, just as with labor, the amount of wealth that capital can keep depends on the alternative where the land is free.

Project #3

wages: lowered as labor moves to less productive land.
rent: increases as the difference becomes greater between the best land and the least productive land in use.
employment: reduced, because low-skilled workers no longer can employ themselves on free land .
wealth distribution: greater inequity, as less land is available, forcing the margin of production lower.
production: decreases - since much of the best land is held out of use, labor and capital are forced to less productive land.
urban sprawl: increases, as people are forced to move further out.

Review after page 10

Review the role of land speculation and its impact. More land is held out of use - how does this affect wages and rent? Point out that this means the **price** of land is increased, because the **supply** of available land is lowered when more of it is held out of use by speculators.

Transparency 7 is used as a reference for #'s 8, 9 and 10.

Transparency 8: D, C and E are most affected. Land values rise because the locations are more accessible and desirable.

Transparency 9: E and G are most affected by the railroad. H feels some impact. Land values go up with better transportation.

Transparency 10: used as a reference.

Transparency 11: B, E, G and H are most affected by the new roads. Production increases, and all these lands are worth more, but especially lots near the new roads. We would expect new commercial enterprises to spring up around these new intersections.

Review after page 12

Note difference between urban and rural economies. The rents are much greater in cities, because the yield is almost unlimited (i.e., a single acre can hold a 100-story building!).

Note how government improvements, such as roads, schools and bridges, increase land values.

Land speculation leads to more unemployment - less land to work on. Also, with much good land held out of use, or under-used, land speculation causes **both** overcrowding and urban sprawl.

Project #4

These answers are a matter of judgement, but the numbers should show some understanding. Examples:

sales	1-2	2-3	3	2-3
property	1	3-4	1-2	2-3
income	1-2	1-2	2-3	2-3
gasoline	1-2	4-5	4-5	3
cap. gains	1	3	3	2-3

Opinions will differ, but a valuable discussion can occur. The main purpose of this activity is to show the impact of these taxes on production, and their relative fairness.

Transparency 12: A:4 B:3 C:2 D:1 E:0

Project #5

land value	4-5	4-5	4-5	4-5

Of course, this is also a matter of opinion and judgement, but should show a strong contrast to Project #4.

Review after page 14

Review and critique the effects of various taxes on the economy.

For an in-depth discussion on land value taxation, use pages 15 - 18.