

## UTILIZING CURRENT EVENTS TO ENHANCE PRINCIPLES OF ECONOMICS

Claggett, E. Tylor  
Salisbury University

### **ABSTRACT**

*This paper provides a framework for using current news stories to increase student motivation to study the principles of economics. The trust of the paper is to: 1) describe workable classroom techniques for gaining 100 percent student participation in studying economics with the aid of current events, 2) explain a way to grade student participation in a nonthreatening way, 3) illustrate, with several real world examples, how recent, typical news stories can initiate more relevant classroom discussions and 4) advocate how real world relevance motivates all undergraduate students, regardless of major. For many university students, our economy appears to be confusing at best. Therefore, a compelling argument is that economics is the primary discipline that attempts to make order out of societal behavior that often appears to be chaotic. The underlying idea is that a majority of news stories are related to the three basic economic questions: 1) "What and how much is to be produced?" 2) "How to produce and who is going to produce what is considered desired production?" 3) "How (and to whom) is the created wealth going to be distributed and consumed?" These questions are fundamental to learning the 'dismal science' and current events provide an excellent backdrop.*

The *Portland Eastern Herald* recorded on June 8, 1795, that "Much has been said and written on the utility of newspapers; but one principal advantage which might be derived from these publications has been neglected; we mean that of reading them in schools."

### **INTRODUCTION**

Teaching economics through the media is consistent with the work done by William Becker and Michael Watts (1999, 2001a, 2001b, 2003, 2004, 2006) who examined the way(s) economics has been taught at the college level. They found the discipline has been slow to adopt innovative approaches to teaching. Despite this trend, preliminary evidence from Girardi (2008) and Raehsler (2009) suggests that using media in introductory courses makes economics more relevant to students, increases class attendance, and raises examination scores. Furthermore, Bloom's (1956) taxonomy lists the following cognitive functions: data recall, comprehension, application, analysis, synthesis, and evaluation. Consistent with this list, much in the media provides the opportunity for instructors to activate all six cognitive domains. Consequently, using media seems especially well suited for developing cognitive reasoning within students.

Like many business schools, the Perdue School of Business, at Salisbury University, is responsible for teaching principles of economics to students majoring in business and non business disciplines. For business majors, the two principles courses serve as the foundation for their future courses. For non business majors, the two principles courses satisfy an important general education requirement. As an economics instructor, I am challenged to find a viable way to reach both types of students; given their heterogeneous sets of interests, agendas and backgrounds.

One method for getting student attention during the first lecture is to tell them that one of the primary course objectives is to make them better consumers of the news. I ask them if they have ever listened to a general newscast and noticed how many news stories are related to real-world economic issues. Next, I ask if they find

it difficult to understand what the newscaster is talking about. If there is a positive group response, I know I have successfully begun the process of motivating my students to take economics seriously; no matter what their major.

Next, I tell the class, that throughout the semester, we will be tying various news stories back to the topics we cover during our lectures. I go on to say that there are countless stories every day that relate to economics and we will not have to search long or hard to find and recognize articles and news clips that relate to our class. Our formal economics training will help us to understand and comprehend these stories. Furthermore, we will become critical readers of the news. We will become skilled at “reading between the lines” because of our training. And, we will be asking follow-up questions because we will quickly learn to realize what was not said and/or what rational and logical analysis would most likely yield as far as conclusions, next steps or public policy implications.

The remainder of this paper is organized thusly: The second section specifies the mechanics I use to fully integrate current events into my lectures and how I make classic economics course topics meaningful, more exciting and, hopefully, useful to students by constantly relating text materials to newscasts. The third section contains actual recent examples of timely news stories and how these could be put into the context of traditional economics lessons. Possible future ways to improve and to further incorporate the news into undergraduate economics classes are described in the fourth section.

### **THE MECHANICS OF INTEGRATING CURRENT EVENTS INTO ECONOMIC EDUCATION**

I continue by saying that economics is the primary discipline that attempts to make order out of societal behavior that often appears to be chaotic. My first lecture goes on by stating, “All societies; past, present or future; no matter how simple or complex; regardless of political or religious beliefs must ask and then answer these three basic questions in order to survive.” 1) “What and how much is to be produced?” 2) “How to produce and who is going to produce what is decided to be desired production?” 3) “How (and to whom) is the created wealth going to be distributed and consumed?” Next, I say everything we will study in this class is related to one or more of these questions and, in fact, so are most major news stories.

Consequently, in my syllabus, I require each student to bring a current news story to class at least once a semester. At the beginning of each class I ask, “Does anyone have a news story today?” The requirement is met when the student orally presents his or her news story to the class. Ideally, there is an even flow of news stories throughout the semester.

After the student current event presentation, a short class discussion follows that is usually easily tied to a topic covered during a previous class lecture or to a topic to be covered in a future lecture. Consequently, the news stories can be either a review or a preview with respect to course subject matter. I usually make the news story five percent of the student’s final grade and it is a nonthreatening event because every student gets the five percent if they bring any reasonable news story to class. As would be expected, near the end of the semester, there are students that have procrastinated and I have to strongly encourage them to bring in a news story. But almost always, by the final exam, every student gets his or her five percent. I find this exercise a great way to make the classic economics text material more interesting to my students and my students seem to think this grading scheme gives them a way to redeem themselves when they make a less than satisfactory grade on an exam or quiz.

In addition to asking students to bring news stories, I almost always bring one or two news stories of my own to class. That makes students know that I feel news stories are very important to the study of economics. Furthermore, my own news stories allow me to gracefully lead into the lecture topic of the day or to review a previous lecture topic. Both scenarios make me look well prepared for class and this translates into better student evaluations.

### RECENT EXAMPLES OF TIMELY NEWS STORIES

**Apple iPhones:** On June 29, 2007, the first Apple iPhones were on sale in the US. There were two models, the 8 GB and the less popular 4 GB. The 8 GB was priced at \$599 and the 4 GB was priced at \$499. Technology analysts estimated initial sales of between 250,000 and 750,000 units in the first weekend (depending on how a sale is defined) and strong sales continued for several weeks thereafter. However, by late July, demand had subsided significantly and on September 5<sup>th</sup>, the 4 GB was discontinued. The 8 GB price was reduced by \$200 on the same day. Customers that had purchased their iPhones during the preceding 14 days were offered a \$200 “price protection” rebate. Unfortunately, many other customers that bought iPhones between June 29<sup>th</sup> and August 22<sup>nd</sup> accused Apple of unfair pricing as the \$200 price cut was considered to be larger than normal over such a short time period.<sup>i</sup> In response to customer complaints, Steve Jobs, then Apple CEO, wrote an open letter to iPhone buyers and offered the earlier purchasers a \$100 credit.<sup>ii</sup>

This news story is perfect for demonstrating many of the basic microeconomic tenants of the demand curve. The idea that price drives quantity demanded is a large part of the story at first. Then, the story illustrates the notion of consumer surplus. Obviously, Apple was harvesting considerable consumer surplus when they were selling units for \$599. Students could be asked, “Why was Apple able to harvest so much consumer surplus?” Was the iPhone market a monopoly? If so, why and what constitutes a monopolistic market?

The very fact that Steve Jobs was willing to give some of the consumer surplus back to the early buyers of iPhones is indicative of how important he thought customer relations were to the future of Apple. As a way to interject ethics into the classroom discussion, students could be asked, “Was this move by Jobs a good one?”

Shortly after 2007, iPhones were met with competition in the market place from several similar devices. The associated follow-on market structure could be cited as an example of an oligopoly. Students could be asked what some of the characteristics of oligopolies are and whether the smart phone market exhibits such characteristics. Next, a discussion as to how important market share is to oligopolistic firms could be beneficial. Market share might be especially important to smart phone providers because of the technical nature of the product, regulatory influence and prospects for future sales of follow-up products.

**American Airlines:** On November 29, 2011, the parent company of American Airlines, AMR, filed for bankruptcy protection. The story cited the high debt (caused by high fuel prices) and expensive labor contracts that its competitors shed years ago as reasons for the filing.<sup>iii</sup>

The notion that airline competitors react vigorously to each others’ business practices provide another excellent lead into oligopolistic market structures. The oligopolistic environment is one in which there is much strategy; signaling and gamesmanship and these aspects underpin this story. Furthermore, the existence of such ‘intrigue’ usually gets the attention of most students, regardless of their major.

In addition, the nature of the airline industry, per se, allows the instructor to talk about the pricing of airline tickets. Students can be asked if they have ever flown and, if they have, did they take advantage of a deeply discounted ticket price? Next, the students can be asked if they think cheap, deeply discounted ticket prices make sense, given airline operations are expensive. So, why do airlines price some tickets so dramatically low? The professor can say, “The worst thing that can happen when an airplane takes off is a crash,” to inject a little humor into the discussion. Then, he or she can say the second worst thing is for an airplane to take off with an empty seat. That sets up a good discussion about fixed and variable costs and the proposal that air flights involve relatively high fixed costs and extremely low variable costs.

A third topic related to airline ticket pricing techniques is price discrimination. The class can engage in a discussion about how well airlines know their customer groups and their various reactions to ticket prices. In addition, price discrimination cannot really be practiced if secondary markets can develop. Can this happen within the airline industry? Of course, secondary markets in airline tickets are almost impossible given the

need for strict personal identification before flights, but such barriers to secondary markets may not be present in other markets.

**Exchange Rate Issues:** On November 14, 2011, President Obama gave his “Obama to China: Behave like a ‘grown up’” speech in Hawaii while hosting the latest APEC summit.<sup>iv</sup> For as long as one cares to remember, there have been many exchanges between the US and China concerning trade issues and this speech is one of the latest of such exchanges.

The story is a natural for beginning a discussion of the pros and cons of a stronger currency. The first question to ask the class is, “What effect would a stronger Chinese currency have on the prices of Chinese made goods here in the US?” Then, “What would be the effect on unemployment in the US?” Next, “How would a stronger Chinese RMB affect prices of US made goods in China?”

Against this background, more complex macro discussions can follow. For example, an easy way for the Chinese to let the RMB strengthen against the US dollar is for the People’s Bank of China to reduce its buying of US Treasury (UST) securities. By just not lending as much or by simply failing to rollover all UST debt that matures, the Chinese would cause significant strengthening of the RMB because the demand for US dollars would be dramatically reduced.

However, there would be significant consequences of such a move. First, the US government would have to pay much more for any new debt and for the debt it already has. This would significantly impact all US federal spending programs because the US budget would be much tighter than it already is.

Next, the monetary policy laid out by the US Federal Reserve (FED) - to keep interest rates very low through 2013 - would be in total disarray. Third, more expensive Chinese products in American markets would put upward pressure on consumer prices in the US. These points can easily lead to a broader discussion of the ill (and positive?) effects of general inflation.

Furthermore, the preceding aspects of a stronger RMB, by virtue of less Chinese lending, would cause all but certain negative economic growth in the US. How could this negative growth be measured? And a fourth point to consider is, a stronger RMB would allow China to buy raw materials (process trade) from foreign sources cheaper; therefore, some Chinese finished goods might actually be cheaper in US dollars.

Finally, other classroom discussions can address other byproducts of international trade imbalances such as the ramifications of one country accumulating vast amounts of excess foreign reserves. How does this affect inflationary pressure within China? And, why should the Chinese not resist a weakening of the US dollar; given how much of their nation’s wealth would be eroded by such a revaluation? All in all, the Obama speech provides a great news article to use to show students the arguments are not all one-sided.

## **RESULTS AND POSSIBLE IMPROVEMENTS**

Since I have used news stories in my classes, current and former students have often said they were the most enjoyable part of the course. In addition, many of these same students have told me they were more motivated to study their lecture notes and text after hearing a related news story. At some point, I plan to design a survey to be administered near the end of each class to quantify the preceding testimonials. This data could provide the basis for fruitful future research.

I have several ideas about how to better engage students with respect to linking news stories to an economic principle or principles. The following variations could make this part of my courses more formal. That may serve to make students take searching for news stories more seriously and that, in turn, may improve the quality of the news stories brought to my classes.

First, I could ask a selected student to bring to class printed copies of a relatively short news stories for each of his or her classmates plus one or two copies for the instructor. Then, after distribution, I could ask each student to take a few minutes to read the news story, write their name on the page and then list and/or describe, on the back of the page, what economic principle or principles apply or are relevant to the news story. After collecting the pages, I could ask various class members to verbally relate their thoughts relative to the just completed assignment. This could be a graded assignment or just an in-class exercise.

A less time consuming variation might be to ask the student providing the news story to read his or her story and then the instructor could ask the class to identify the economic principle or principles demonstrated or intertwined in the news story. Obviously, the instructor should do this before making any comments so students do not necessarily say what they think their teacher wants to hear.

Either of the above techniques could be used with the best news stories from previous semesters. In this way, the instructor could develop a library of excellent news stories that provide better than everyday quality for each topic he or she would like to showcase. Of course, it would be best if said news stories were recent enough for class members to remember.

In conclusion, there is no doubt that the more often abstract economic topics can be tied to real world events, practices and causes, the more excited students will be when asked to study such topics. If young people can readily see how economic principles affect their daily lives, the more likely it is they will at least develop an appreciation for the 'dismal science'; if not learn to embrace it as a way to make all aspects of their future lives better and more productive.

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<sup>i</sup> [http://en.wikipedia.org/wiki/History\\_of\\_the\\_iPhone](http://en.wikipedia.org/wiki/History_of_the_iPhone)

<sup>ii</sup> <http://www.apple.com/hotnews/openiphoneletter/>

<sup>iii</sup> <http://money.msn.com/business-news/article.aspx?feed=AP&date=20111129&id=14567894&ocid=ansmony11>

<sup>iv</sup> <http://news.yahoo.com/apec-leaders-seek-firewall-against-europe-crisis-003311439.html>