

Lesson 1.2: Why Do People Trade?

"Why Do People Trade?" is from *Focus: International Economics*, by Gerald J. Lynch, Michael W. Watts, and Donald R. Wentworth, National Council on Economic Education, 1998.

Introduction

Most international trade is the voluntary exchange of goods and services between individuals and businesses located in different countries. Nations do not trade. Instead, individuals representing nations, individuals representing businesses, and individuals representing themselves make trading decisions. Voluntary trades are made when both parties expect to gain from the trade. Such trades may continue in the future if both parties are pleased with the exchange. If the consequences of trading are not satisfactory, then the parties will not continue their voluntary trade.

People evaluate their satisfaction from trades by weighing the costs and the benefits they receive from the trades. How much do they value what they give up? How much do they value what they receive? When the expected benefits outweigh the expected costs, people trade. When the expected costs outweigh the expected benefits, people don't trade.

Concepts

- Trade
- Voluntary exchange
- Costs
- Benefits

Content Standards

- Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.
- Exchange is trading goods and services with people for other goods and services or for money.
- The oldest form of exchange is barter: the direct trading of goods and services between people.
- When people buy something, they value it more than it costs them; when people sell something, they value it less than the payment they receive.

Objectives

- Identify the expected costs of a voluntary trade.
- Identify the expected benefits of a voluntary trade.
- Distinguish between voluntary and involuntary trade.
- Explain how value is created, and overall satisfaction increases, when people trade.

Lesson Description

Students participate in a trading activity. In a debriefing session, they discuss their actions and compare their behavior with trading behavior that occurs in the economy.

Time Required

One class period.

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Materials

- One transparency each of Visuals 1, 2, and 3
- Pencils and paper for students
- One small paper bag per student, containing one or more tradable item(s) such as dried fruit, small boxes of raisins, pencils, stickers, library passes, shampoo, soap, etc. Make the bags very different from one another. For example, prepare some bags containing unpopular items, only a single item, many of the same items, many different items, items more popular with boys, and items more popular with girls.

Procedures

1. Explain to the students that they will investigate trading behavior today by participating in a trading activity and by using that experience to learn more about international trade.
2. Display Visual 1, "Why Do People Trade?" Ask students to answer this question and put their responses on the chalkboard. Treat these responses as a hypothesis that will be tested against the evidence developed in the rest of the activity.
3. Put students in groups of three, and tell them to take out a pencil and sheet of paper.
4. Distribute the bags containing tradable items to the students, one bag per student. Tell them not to look in the bags until you give them permission.
5. Tell the students to look into their bags without showing the contents to other students, and to rate their bag contents on a scale of 1-5. (One is the lowest rating; five is the highest.) Ask the students to write down their rating on their sheet of paper.
6. Let the students take items out of the bag and show them to other people in the group, if they choose to do so.
7. Allow the students two minutes to trade items within their group of three, if they can agree on a trade. No one is required to make a trade.
8. After the two-minute trading session, ask the students who have made a trade to raise their hands. Write down the total number of trades on the chalkboard. Then ask the students to give examples of trades they made, and trades they did not agree to make, so that other students get some idea of what tradable items are available in the entire class.
9. Ask the students to rate the item(s) they now have on a scale of 1-5. See how many students report a higher score after trading, how many report the same score, and how many (if any) a lower score. *(People who traded are likely to give the new item(s) a higher rating. Some people who did not trade may also change their rating, now that they see what other items are available. It is important to note that the person who traded an item may give it a 3, while the one who received it may give it a 5. This does not mean that the trade was not beneficial. What is important is that people who receive an item give it a higher score than the score of the item they traded away.)*
10. Tell the students that one more trading session will take place. This time they may trade with anyone in the class. They have five minutes to make any and all trades they wish to make. Again, no one is required to trade.
11. At the end of the five-minute trading session, call the students back to order. Ask them to display the items they now possess on their desks. Ask them to rate the item(s) on a scale of 1-5.
12. Conduct a debriefing discussion with the students, using the following questions:
 - a. How many of you made trades in Round 1? In Round 2? *(Have a show of hands; more people probably traded in Round 2 than in Round 1.)*
 - b. Why did more trades take place in Round 2 than in Round 1? *(More time to trade, better trading information existed as a result of Round 1, more alternative items were available to trade. Stress the idea that trade in Round 1 was similar to trading within a country, while trading in Round 2 was more like international trade. Note that the source of gains from trade are exactly the same in both rounds—i.e., in both intranational and international trade. In both rounds, people traded things when they valued what they received more than what they gave up.)*

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- c. What items were traded? (*Get some sample answers.*)
- d. Which items were most popular, least popular? (*Get some sample answers.*)
- e. Why did you trade? (*People tend to trade items they personally value less for items they value more.*)
- f. What was the cost of your trade? (The item given to the other person in the trade.)
- g. What was the benefit received from your trade? (The item received from the other person in the exchange.)
- h. How many people rate the item they traded for higher than the item they had originally? (*Almost everyone who traded will rate the new item higher. This evidence should confirm the answers to Question E.*)
- i. Did anyone make a mistake and trade badly? Did anyone fail to make a trade they now wish they had made? (*Often, someone will make a mistake. Not all trades turn out as expected, and not every trading opportunity is seized.*)
- j. If students say they made a mistake, ask if they would make the same mistake next time. (*Maybe not. People tend to learn from their mistakes, and bad trades often lead people to stop making that trade or to stop trading with certain people or companies.*)
- k. Which people had the most difficulty trading with others? (*People with unpopular items. To trade, you must have or produce items other people want.*)
- l. Why did some people choose not to trade? (*People who preferred the items they had over the items offered to them had no incentive to trade.*)

13. Display Visual 2. Explain to the students that they must now draw some conclusions about trade in general. See if they agree with the definition of trade presented in Visual 2. Stress the voluntary nature of trade.

14. Display Visual 3. Ask the students if they agree with these statements about the motives for trade. Ask them for examples of their motives during the trading activity which are consistent with these statements.

15. Compare these explanations for why people trade with the students' initial statements in response to Visual 1. Revise the initial statements so they are consistent with the evidence from the activity and the statements in Visual 3.

16. Ask the students if they can identify examples of involuntary trade. (*A mugging where a thief says, "Your money or your life." When you are ordered to cut the grass for a price set by your parents, or to pay income taxes or go to jail.*) Ask students to discuss the question: Do these "trades" always increase satisfaction and wealth, or do they ever?

17. Summarize the main points of this lesson:

- a. Trade is the voluntary exchange of goods and services.
- b. People trade because they expect to gain from the trade.

Assessment

Provide the following information to students and ask them to respond to the question.

In 1994, Canadian businesses and individuals sold \$195.8 billion of goods and services in the United States, while businesses and individuals in the United States sold \$229.7 billion of goods and services in Canada. Why were these businesses and individuals trading with one another when they live in different countries? (*Suggested answer: They are trading because they gain from these exchanges. Otherwise they would not make these trades. Their national citizenship has little to do with their decision to trade.*)

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**Trade Is the
Voluntary
Exchange
of Goods and
Services
Among
Individuals and
Businesses.**

Motive for Trading

People expect to gain by trading with other people.

They hope to receive a good or service that is more valuable than whatever they trade away.

Motive for Not Trading

People do not trade when the good or service being offered is of less value than the good or service they are asked to exchange.

