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# Introduction

## Why Ethics Is Important to Economics

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If economics involves the search for truth about the world — why the price of gasoline rises or why the unemployment rate falls — aren't such scientific matters immune to personal ideals of right and wrong?

These lessons provide opportunities for teachers and their students to explore this question. Our thesis is that ethics — consideration of right and wrong — does matter to economics. Economics grapples with how societies deal with limited resources and how exchange plays a part in this process. Why do strangers return lost wallets? Why are doctors concerned about their clients' best interests? Why does fairness seem to produce higher economic returns than greed? Ethical values and moral frameworks permeate exchange.

The study of ethics in economic life is growing exponentially. This is partly because of recent scandals at major energy, health-care and other firms. These scandals highlight the destructive power a few immoral managers can wreak on a company and on the market. These same moral failings also cause problems in government and nonprofit sectors of the economy.

However, the renewed interest in ethics actually began after the fall of the Soviet Union in 1991, when it became clear that simply unleashing markets, without first creating a workable system of justice, would fail to create conditions for social development. Justice matters to economic life in many ways. Courts and judges are needed to enforce contracts and uphold private-property rights. But formal justice pales in comparison with informal justice: the moral code every citizen carries around in his or her head while going about daily life as an employee, business owner and customer.

As economists, we need to understand how ethical conduct reduces transaction costs, enhances productivity and creates the social capital that lubricates exchange. The lessons

in this book propose that certain absolute ethical standards play an important role in economic life. Perhaps for this reason parents and teachers struggle to develop the character of young people in their charge. Holding students accountable helps them to understand their duties to family, community and nation, just as learning self-control provides a foundation for achievement and personal fulfillment.

Finally, economists play an important role in trying to improve society. Normative economics examines the costs and benefits of alternative policies. Deciding among these alternatives requires people to rank goals, and their rankings are determined by ethical values. While economists typically examine only consequences, they are mistaken in judging that only consequences matter. Most religious and philosophical traditions ask, "Do the ends justify the means?" and "Are there duties that people should uphold, regardless of consequences?" Some people might also ask, "Would the proposed policy help or hurt the development of virtue in our community?" These questions are not distractions in society — or in an economics class. Rather, they encourage people to exercise their moral imaginations and develop an analytical perspective, which will enhance students' capabilities in a complex world.

These 10 lessons pose provocative questions about sweatshop labor, the sale of human organs, efficiency and equity in health care, the meaning of justice, the morality of markets and the moral limitations of markets. They allow the students to explore important issues in various engaging ways, often through interactive exercises. Ultimately, these lessons ask the students to develop the critical-thinking skills necessary to explore economic and public-policy issues within a wider moral context. It asks them, in short, to become leaders.

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## A User's Guide to These Lessons

*Teaching the Ethical Foundations of Economics* may sound intimidating, but, in fact, these 10 lessons are highly accessible to high school teachers and their students. The lessons actively engage the students through simulations, problem solving, group decision making, classroom demonstrations and more. Most importantly, the students must think critically about ethical issues and understand why ideas of right and wrong are vital to economic decision making. The issues discussed in these lessons should grab the students' interest.

The following questions and answers provide some insights on ways to use these lessons effectively.

### 1. How difficult are the economic concepts in the lessons?

The lessons incorporate many economic concepts, which are fully explained. Only one lesson has a graph: a supply and demand graph illustrating a price ceiling. These lessons can be used in government, history, business education and international studies classes in addition to economics classes.

### 2. How difficult are the ethics concepts in the lessons?

Because the study of ethics is so often ignored in high school classes, the ethical concepts will be new to most students. As with the economics concepts, the ethics concepts are developed within the context of each lesson. The lessons emphasize three ethical theories that people use to guide their actions:

- The outcomes-based theory of ethics maintains that the best action is the one that produces the best consequences.
- Duty-based ethics focuses on a set of ethical principles, duties or rules to guide actions.
- Virtue-based ethics emphasizes the personal qualities that enable us to do the right things that good people would do. These qualities include honesty, integrity, courage, concern for others and loyalty. The students apply

these theories as they think critically about ethical dilemmas.

### 3. How do the lessons actively engage the students?

Several lessons simulate behavior before the students analyze that behavior. For example, in Lesson 2 the students play the Ultimatum Game to see the difference between self-interest and greed. In Lesson 3 the students assume the roles of doctors and patients to see how enlightened self-interest, duty and virtue improve economic efficiency. In Lesson 5 the students must determine how to allocate a scarce good, while in Lesson 8 they must make life-and-death decisions about how to allocate a life-saving serum.

The lessons emphasize critical thinking and decision making. In Lesson 7, for example, the students must choose one of four policies for allocating kidneys available for transplants. In Lesson 9 the students must take a stand on the social responsibility of business. In Lesson 10 the students play the Veil of Ignorance game, first choosing policies based on self-interest and then choosing again when they do not know what their self-interest is.

### 4. Do I need to use all the lessons?

Each lesson stands on its own and is not dependent on concepts developed in the other lessons. Nevertheless, certain themes carry across many of the lessons.

### 5. Do I need to spend a lot of time preparing to teach these lessons?

Each lesson is complete; all of the Activities, Visuals and other materials are incorporated into the lessons.

### 6. Can I use these lessons to teach national and state economics standards?

Each lesson covers a specific Voluntary National Content Standard in Economics, and most lessons contain more than one standard. Because many state economics standards are

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based on the national standards, many lessons also teach the state standards. These lessons will help students understand why ethics and economics go together.

**7. What outcomes can I expect from using these lessons?**

The lessons enrich the students' understanding of real-world issues. Public-policy choices require people to combine economic analysis with normative evaluations, including ethical considerations. When the students can see this larger picture, their critical-thinking skills are enhanced.

**8. How do I assess whether the students have really learned something from these lessons?**

Each lesson has three multiple-choice questions and two essay questions that you can use to assess student learning. The questions with answers are provided in the lessons, and the questions without answers are in an appendix so you can copy them for the students.

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