

Unit 5 How the economy functions

About the unit

This unit focuses on how the economy functions. It helps pupils to understand the role of the individual, business and government in the workings of the economy, and how money flows between them.

By looking at individual and family expenditure, issues relating to personal finance and saving for the future are developed. Understanding of the role of government in the economy, at both local and national level, is built up from the links made between taxation and expenditure. The responsibilities of taxpayers are considered.

The unit includes opportunities for debate and discussion and for pupils to work as individuals or in small groups to undertake research and enquiry. It is important to ensure that findings are shared with the whole class so that all pupils learn about each aspect of the work.

Where the unit fits in

This unit addresses the following aspects of the key stage 4 citizenship programme of study:

Knowledge and understanding about becoming informed citizens

Pupils should be taught about:

- 1e how the economy functions, including the role of business and financial services
- 1i the United Kingdom's relations in Europe, including the European Union, and relations with the Commonwealth and the United Nations
- 1j the wider issues and challenges of global interdependence and responsibility, including sustainable development and Local Agenda 21.

Developing skills of enquiry and communication

Pupils should be taught to:

- 2a research a topical political, spiritual, moral, social or cultural issue, problem or event by analysing information from different sources, including ICT-based sources, showing an awareness of the use and abuse of statistics
- 2b express, justify and defend orally and in writing a personal opinion about such issues, problems or events
- 2c contribute to group and exploratory class discussions, and take part in formal debates.

This unit links with unit 10 'Rights and responsibilities in the world of work' and unit 9 'Consumer rights and responsibilities'.

Expectations

At the end of this unit

most pupils: understand what the economy is and the interconnected roles and responsibilities of government, business and individuals. They realise that government expenditure depends on the amount of tax that is collected and therefore on people's sense of responsibility as taxpayers. They appreciate that the government uses policies to try to keep the economy stable. They know that the UK economy is affected by events and changes in the world economy and can give examples of how this might happen.

some pupils have not made so much progress and: understand that individuals contribute to the UK economy through the money they spend, the tax they pay and the job they do. They appreciate that the services provided by government depend on the amount of tax collected.

some pupils have progressed further and: have an understanding of what the economy is and the interconnected roles and responsibilities of government, business and individuals. They understand that government expenditure depends on the amount of tax paid and therefore on people's sense of responsibility as taxpayers. They identify different ways in which the government raises money through direct and indirect taxation and can give examples of these. They understand that the UK economy is influenced by a wide range of factors, including government policy, trade and the world economy.

Resources

Many groups and organisations produce online resources that are relevant to citizenship. QCA has not printed these website addresses as it recognises that they can and do change, often at short notice. So that we can monitor and maintain a reliable and useful resource, the website addresses of the following organisations can be accessed through the key stage 4 citizenship scheme of work site at www.standards.dfes.gov.uk/schemes

- Biz/ed (provides a business and economics service including a virtual Chancellor of the Exchequer game)
- HM Treasury (up-to-date information on the state of the economy)
- Financial Services Authority (information on financial products; also has reports on financial exclusion)
- Institute for Citizenship (materials on Economic Citizenship are currently being produced)
- National Statistics (government statistics on the economy and society)
- Personal Finance Education Group (resources on business and personal finance)
- National Association of Citizens Advice Bureaux (information on a number of personal issues, including debt and credit management)

Links with other subjects

In this section, references are made to the programme of study if there is one at key stage 4, or to the subject specific criteria on which GCSE courses are based. Some of these links have been included in the 'Points to note' section to illustrate these opportunities.

Economics and business studies: the interdependent behaviour of individuals, groups, organisations and governments within local, national and international contexts (3.3ii); how the well-being of individuals and societies may be affected by changes in productivity, employment, prices, capital and distribution of income (3.4iv); how governments attempt to meet overall objectives for national stability and prosperity (3.4v). Topics are explored in greater depth in these courses
History: GCSE specifications, especially social and economic and modern world history, address aspects of work and employment, industry and agriculture, transport and communications, poverty, protest and reform, and economic developments in a range of countries, including Germany and America in the early to mid-twentieth century (3.2vi)

Geography: GCSE criteria: study of geographical aspects of contemporary economic issues (3.1vi); the way in which places and environments are interdependent (3.1viii)

RE: many religions have beliefs and teachings that relate to the use and abuse of money by individuals and in society. These beliefs impact on such issues as ethical investment, lending and borrowing money, means of acquisition, responsible use of wealth, the role of charities, and charitable giving. Examples include the teachings of the Qur'an on interest, Buddhist approaches to poverty, and Christian teachings on poverty and wealth

Pupils should learn:

Pupils:

Where does our income go?

- about where the income of an individual and a family comes from
 - about the different ways in which income can be used, including the role of saving
 - about the purpose of taxation
 - how government raises money through different forms of direct and indirect taxation
- Ask pupils to list all their sources of income, *eg pocket money/allowances, part-time jobs, gifts*. Ask them to record why they receive money. Do they do anything in return, *eg part-time work, help out at home*? Ask them to list what they do with their income.
 - In groups, pupils discuss how they make decisions about what to do with their money and why, *eg spending, saving, donating to charity*. In a class discussion, review the groups' conclusions, emphasising that people have to make choices as they have a limited amount of money to spend (cost/benefit analysis).
 - Using the example of an item of common expenditure on which VAT is paid, such as a CD, ask pupils to work in groups to consider what might happen to the money that they pay for it, *eg a proportion to the record company, the band, the retailer, VAT (indirect taxation to the Treasury)*.
 - Ask pupils to list where income at home comes from and how it is allocated. Sources of income should include benefits received, *eg child benefit*. What is money spent on each month, *eg food, clothing, bills, mortgage/rent, savings, pension contributions, insurance, income tax (a form of direct taxation), council tax, donations to charity*? What happens when there is more expenditure than income? What are the choices in this situation, *eg using credit cards or other loans to make up the difference, cutting back on expenditure*? Pupils find out who can provide help and advice on managing debt, *eg their local Citizens Advice Bureau*.
 - Make a class list of sources of income, types of expenditure and sources of help and advice and discuss all the different aspects. If the discussion provokes negative comments about taxation, make the link between income and expenditure, ie benefits and services received for taxes paid, such as NHS healthcare, education. Discuss where individuals can go for information, help and advice about personal finance and taxation.
 - Extension activity: pupils could investigate different types of investment. They develop and track an investment portfolio, keeping within a set budget. Different groups of pupils could select different types of companies and investments so that performance over a particular period of time can be compared, *eg one group has shares from UK companies only; another has shares from international companies only; another has shares from a mixture of UK and international companies; and another invests the money in a different way, such as putting it in a building society savings account*. When choosing their investments, pupils need to think about the reasons for their choices, *eg type of business activity, level of risk, past performance*, and be able to explain their decisions. Proshare is one organisation that provides information and support for this type of activity (see www.standards.dfes.gov.uk/schemes).
- are aware that income comes from a variety of sources
 - recognise that spending is limited by income, so people have to make choices, *eg about saving, donating to charity*, and that there are reasons for different choices
 - understand that we are all required to pay taxes and that taxation takes different forms, giving examples
 - know where to go for help and advice about personal finance
- Sensitivity is needed when discussing personal information. Pupils should have the option not to divulge information about their own or their family's financial circumstances. An alternative would be for pupils to work with a range of case studies.
 - One way of creating a class list is to do a circulating brainstorm, where large sheets of paper are passed round the class with each group adding items to the list until all ideas have been recorded. Use different sheets for income and expenditure.
 - The website of the National Association of Citizens Advice Bureaux provides information about a range of issues and has links to local CABs (see www.standards.dfes.gov.uk/schemes).

Learning objectives

Pupils should learn:

Possible teaching activities**Learning outcomes**

Pupils:

Points to note**What is the economy and how does it function?**

- about how and why government spends its money
 - what the economy is and how it functions
- Pupils use local and central government websites to investigate how public money is spent. Give them a list of ways in which the government might spend a limited amount of money, *eg helping to cut unemployment, helping businesses to be more efficient, improving education, health, transport*. Ask pupils to work in pairs or small groups to rank these in importance and to explain their ranking.
 - Ask pupils in groups to work out what the government offers in terms of public services and benefits to different members of society, *eg one group represents a child, others a single adult, a parent, a retired person, a person who has a disability*. Pupils work out how the government helps each group and present their findings to the class. Class discussion should include the varied levels of dependency on government support over a lifetime and the interdependency of the population and the government as a result.
 - Using a newspaper article, video, or other stimulus material, the class discusses the effects of people avoiding paying their taxes. What are the possible consequences for the individual? Is this a criminal or civil offence? What might happen if the person is prosecuted, *eg penalty fines, a prison sentence*? What are the consequences for the community and society?
 - Some of the public services provided by government can also be provided in other ways, *eg schools, healthcare*. Pupils work in groups, taking on the roles previously suggested, to think about how the services they need could be provided.
 - Review activity: what is the economy and how does it function? Construct a diagram to show the links and connections (interdependence) in the economy by drawing three circles representing the individual, business and government. In groups, pupils discuss these and decide where to add labelled arrows to represent the flows of money, products, work, etc between the three circles.
- know how and why government collects revenue through different forms of taxation
 - identify how and why government spends money and give examples of public services
 - recognise that benefits for society, *eg state education, NHS healthcare and the welfare state*, are paid for through taxation
 - recognise what the economy is and that there are links and connections between individuals, business and government through the flow of money, products and activity, including work
- Link with ICT: pupils use ICT to undertake research into how public money is spent. This section could be expanded to explore how taxation is spent by the local council. Unit 7 'Local democracy' and unit 8 'Leisure and sport in the local community' in the key stage 3 citizenship scheme of work may provide a starting point for this.
 - This section could be linked with unit 10 'Rights and responsibilities in the world of work'.
 - Link with history: political, social, economic modern world history, including work and employment, industry and agriculture, government intervention and free trade.
 - The Treasury website (see www.standards.dfes.gov.uk/schemes) has useful information about the economy. Local authority websites also provide information on how public money is spent.
 - If internet access is not possible for the class, download the information in advance and use it as a reference source.
 - This section builds a picture of the economy. In simple terms, the economy is made up of everyone who buys and sells things, everyone who works, everyone who receives and pays money to the government, and the government's own income and expenditure.

Learning objectives

Pupils should learn:

Possible teaching activities**Learning outcomes**

Pupils:

Points to note**How does the economy stay on track?**

- how the economy can change and how this affects business, *eg stability, booms and slumps, and changes to unemployment rates and inflation*
- Pupils investigate how changes in the economy can affect local business, *eg a shortage of customers, or a shortage of skilled employees leading to rising costs*. Invite a member of the local business community to come to the school to talk to pupils, or suggest issues for pupils to consider. What solutions to these changes can they suggest, *eg an advertising campaign to boost product sales, incentives for people to learn new skills*? Ask pupils to think of other changes to supply and demand in the economy, *eg how inflation causes rising prices (too much money chasing too few goods results in prices going up), rising unemployment, more people claiming income support*.
- Ask pupils to discuss what businesses and individuals want from the economy, *eg keeping the economy stable as this helps stabilise prices and salaries, enabling individuals to plan their future and feel more secure*. What can the government do to keep the economy stable, *eg help people develop skills for the jobs available, take steps to control inflation, help businesses to be efficient*? Again, this kind of discussion may be enhanced if representatives from a local business/financial institution are invited to come in and talk with pupils.
- identify problems that can result from economic change
- understand the government's role in dealing with the problems of instability in the economy
- Local business people invited into the classroom need to be carefully briefed on the context of their visit, to ensure that they talk about the effect on their business of changes in the economy, rather than about running their business.
- Link with history: modern world history, including America during the Depression and New Deal, and Weimar Germany after 1929.
- Link with geography: economic activity at a local scale (3.1ii).

What are the economic links and connections between the UK and the rest of the world?

- about the interdependence of the UK economy and the world economy
- Select newspaper stories or headlines about events at home or abroad that will lead to changes in the economic relationships between the UK and other countries, *eg people buying more or fewer UK cars, tourists being unwilling to come to the UK, the value of the pound being low so people want to buy UK products, or high so they want to buy imported products*. Ask pupils to suggest what the effect of these changes might be.
- Using the circles diagram from the earlier activity, for each of the suggested changes above add arrows showing where money is flowing into or out of the economy, *eg if there are fewer tourists, there will be fewer jobs in hotels so unemployed hotel workers might have less money to spend on goods and services*.
- know that the UK economy is connected to the rest of the world and that economies are interdependent
- understand that events in the rest of the world can affect the UK economy, and can give some examples
- At any time, there are events taking place in the world that will have an impact on the UK economy. This section asks pupils to make connections between them. Most of these factors reduce or increase the amount of trade that takes place with the UK. More trade tends to increase employment, and less trade will reduce it. This means that people in the UK will have either more or less income to spend.
- Link with geography: GCSE criteria: the way in which places and environments are interdependent (3.1viii).