Schools of Economic Thought | Worksheet

Matching

Match the definition in Column A with the term in Column B.

Column A	Column B
________ Government intervention boosts demand in weak economies.	a. Classical
________ Government uses taxes and spending to influence economy.	b. Keynesian
________ Individual choices and limited government shape markets.	c. Monetarist
________ Free markets, minimal government, supply and demand balance.	d. Austrian
________ Government controls money supply to stabilize economy.	e. Fiscal Policy

Multiple Choice

1. **Which of the following best describes a Classical economist's approach to helping a struggling business?**
    a. The government provides financial support to increase demand.
    b. The business should innovate and improve its products to stand out in a free market.
    c. Interest rates should be lowered to encourage borrowing and spending.
    d. Prices for goods should be controlled to make them more affordable.
2. **According to Keynesian economic theory, what should the government do if consumer demand drops and the economy slows?**
    a. Increase government spending to stimulate demand and create jobs.
    b. Encourage businesses to innovate without government interference.
    c. Increase the money supply to encourage spending.
    d. Reduce consumer options to limit spending.
3. **In Monetarist theory, how should the government manage inflation?**
    a. Increase taxes to reduce the budget deficit.
    b. Control the money supply, as too much money in circulation can drive up prices.
    c. Invest in businesses directly to keep prices stable.
    d. Set strict price controls on essential goods.
4. **Which of the following would an Austrian economist most likely emphasize for a business to attract more customers?**
    a. Lowering prices through government-subsidized discounts.
    b. Asking the government to set a minimum price for all products.
    c. Offering uniform pricing with other businesses to ensure fairness.
    d. Promoting the unique qualities of the product to align with consumer preferences.

Application

Imagine you are a small business owner in a free market economy. How might increased competition from other businesses impact your product quality, pricing, and customer choices? Explain one strategy you might use to stay competitive.

Scan to watch episode:

Schools of Economic Thought | Answer Key

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e. Government uses taxes and spending to influence economy.	b. Keynesian
d. Individual choices and limited government shape markets.	c. Monetarist
a. Free markets, minimal government, supply and demand balance.	d. Austrian
c. Government controls money supply to stabilize economy.	e. Fiscal Policy

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Example Student Response: "As a small business owner, increased competition would push me to improve my product quality and maybe even lower my prices to attract more customers. If other businesses offer similar products, I'd have to make sure my product stands out, possibly by improving customer service or adding unique features. I could also run special promotions to draw in more buyers. Overall, more competition means I'd need to work harder to keep customers and adapt to what they want."

Guidance for Grading:

- [ ] **Understanding of Competition**: Check that the student explains how competition affects their business strategy, especially in areas like product quality and pricing. Look for an understanding that increased competition can pressure a business to improve and stay relevant.
- [ ] **Strategic Response**: Ensure the student considers at least one specific strategy, such as enhancing product quality, lowering prices, or offering promotions. The response should show they are thinking critically about realistic ways to remain competitive.
- [ ] **Connection to Market Economy**: Confirm that the student connects this scenario to the nature of a free market economy, where businesses must respond to consumer choices and competition without heavy government intervention. This doesn't need to be highly technical, but it should reflect an understanding that competition drives business decisions in a free market.