Cash Course | Grades 6+

Taxes IV: The Price Isn't Right | Lesson Plan

How do taxes change the choices people and businesses make in a market economy?

Students will understand that taxes alter the natural balance of supply and demand by distorting prices, which leads to deadweight loss and affects who ultimately bears the economic burden.

Learning Objectives:

- Define key economic terms, including *price distortion*, *equilibrium*, *sales tax*, *property tax*, and *deadweight loss*.
- Identify examples of how different types of taxes (sales and property) affect the prices of goods and services.
- Distinguish between an efficient market at equilibrium and one distorted by taxation.
- Explain how taxes can lead to deadweight loss by preventing mutually beneficial exchanges between buyers and sellers.
- Analyze who ultimately bears the burden of a tax (tax incidence) and how this impacts overall market efficiency.

Key Vocabulary:

- **Price Distortion:** When the price no longer reflects the true cost of production or value to customers.
- **Equilibrium:** The point where the amount producers are willing to supply equals the amount consumers are willing to buy.
- **Sales Tax:** A tax added to the price of goods or services at the time of purchase, usually as a percentage of the sale price.
- **Deadweight Loss:** The lost economic value that happens when taxes or price changes prevent buyers and sellers from making beneficial trades.
- **Property Tax:** A tax charged on the value of land or buildings, typically paid each year to local governments.

Educational Standards: CCRA.R.7, CCRA.R.10, CCRA.W.2, CCRA.W.4, CCRA.W.7, CCRA.SL.1, CCRA.SL.2, CCRA.L.6

Academic Subject Areas: Economics, Taxes, Economy

What You'll Need

- Video: *Ca$h Cour$e: Taxes IV: The Price Isn't Right* (Watch Here)
- Worksheet: *Ca$h Cour$e: Taxes IV: The Price Isn't Right* (Click Here)
- Classroom whiteboard and dry-erase markers (or use a technology solution if available).

Scan to watch episode:

Lesson Plan (50 mins.)

Warm-Up: (15 mins.)

1. Begin with a quick explanation of taxation in American history. Explain that taxes were a major cause of the American Revolution — not because people hated paying for roads or defense, but because colonists were being taxed without representation in Parliament. Mention the Stamp Act as a key turning point that sparked protests and led to the famous phrase, "No taxation without representation." Connect this idea to the Founders' vision for a new government that would collect only limited taxes to fund essential services. Transition by saying: "Over time, those simple beginnings changed. Today, taxes affect nearly everything we buy, earn, or own. Let's take a look at how taxes shape our economy."
2. Ask the class: If the government adds a tax to a product, who do you think ends up paying more — the buyer, the seller, or both?
3. Explain to the students that today's lesson will focus on how taxes affect the economy by changing prices, influencing buyers and sellers, and creating inefficiencies in the market.
4. Introduce the following key terms on the board, and provide the definition and an example for each (ask students to write the definitions down in their notebooks):
    - **Price Distortion:** When the price no longer reflects the true cost of production or value to customers.
        - **Example:** A concert ticket that would normally cost $100 now costs $110 after tax. The higher price discourages some buyers — that's a price distortion.
    - **Equilibrium:** The point where the amount producers are willing to supply equals the amount consumers are willing to buy.
        - **Example:** A lemonade stand sells 20 cups a day at $1 each — that's the price where everyone who wants lemonade gets it and every cup is sold. That's equilibrium.
    - **Sales Tax:** A tax added to the price of goods or services at the time of purchase, usually as a percentage of the sale price.
        - **Example:** In California, restaurant meals are taxed at about the same rate as other goods — nearly 10%. Add a tip, and that $12 burger can cost you closer to $15. That extra money changes how often people eat out, and how much restaurants can charge or pay their workers.
    - **Deadweight Loss:** The lost economic value that happens when taxes or price changes prevent buyers and sellers from making beneficial trades.
        - **Example:** A movie theater has 100 seats. Because a tax raises ticket prices, only 90 people buy tickets. The 10 empty seats represent *deadweight loss* — value that's lost for both the theater and the moviegoers who would have attended.
    - **Property Tax:** A tax charged on the value of land or buildings, typically paid each year to local governments.

        - **Example:** In California, if a home is valued at $900,000 and the property tax rate is about 1%, the owner would pay roughly $9,000 a year in property taxes.
5. Have students come up with a few examples of their own to test understanding.
6. Transition to today's enduring question and explain that this question will help guide their understanding of today's lesson: *How do taxes change the choices people and businesses make in a market economy?*
7. Once students are familiar with the basic terms and ideas, explain that they'll now watch a short video that brings these concepts to life. Explain that the video will demonstrate how different taxes distort prices, disrupt market equilibrium, and result in lost economic value.
8. Let students know they'll be expected to discuss and apply what they see, so they should watch carefully for moments that connect to the vocabulary they just reviewed.

Watch and Discuss: (20 mins.)

1. Show the *Ca$h Cour$e: Taxes IV: The Price Isn't Right* video to the class.
2. **Note to teachers:** You may choose to watch the video straight through first or pause at key moments to clarify terms and reinforce concepts such as *equilibrium*, *price distortion*, or *deadweight loss.*
3. After viewing, lead a class discussion using the following guiding questions:
    - What happens in a market when taxes push prices above equilibrium? Who changes their behavior first — the buyers or the sellers?
    - Is it fair that both consumers and producers share the burden of taxes, even though only one side might be officially charged? Why or why not?
    - If taxes can cause inefficiency and deadweight loss, why do governments still rely on them? Are there situations where the benefits outweigh the costs?
    - Can you think of something you or your family buys that's affected by a tax — and how that might change how much or how often you buy it?
    - What would an ideal tax system look like — one that funds public needs but minimizes distortion? Is that even possible?
4. Give each student the "Cash Course: Taxes IV: The Price Isn't Right" Worksheet and allow them to complete it independently or in pairs.

Wrap-Up: (20 mins.)

1. If students haven't already, allow them to finish the worksheets. Use this time to circulate, answer questions, and check for understanding.
2. Review and Reflect (Optional): Go over selected worksheet questions together, especially:
    - Multiple choice items that connect to real-world examples of how taxes affect prices.
    - The application question.
3. Wrap-Up Prompt (Board or Exit Ticket)

- What is one thing you now understand about how taxes affect prices, choices, or the overall economy?
- Students can write a quick response on an index card, in their notebook, or at the bottom of their worksheet.

4. Collect Worksheets: Use the completed worksheet and exit tickets to assess comprehension and mastery of the lesson objectives.

Don’t have time for the full lesson? Quick Activity (15-20 mins.)

Distribute the worksheet and allow students to complete it while they follow along with the video. Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.