



the.Dollar: iPhone Launch Economics Lesson Plan

This lesson has been designed to support *the.News* video “iPhone.” The video can be found online at http://www.pbs.org/newshour/thenews/thedollar/story.php?id=3045&package_id=631.

Lesson Author: Ken Karrer

Learning Objectives: Source is McRel (www.mcrel.org)

Civics

Economics

1. Understands that scarcity of productive resources requires choices that generate opportunity costs
3. Understands the concept of prices and the interaction of supply and demand in a market economy
4. Understands basic features of market structures and exchanges
7. Understands savings, investments, and interest rates

Career Education

Business Education

Entrepreneurship

15. Knows unique characteristics of an entrepreneur
16. Knows characteristics and features of viable business opportunities
20. Understands the financing necessary to start a business

Language Arts

Writing

1. Uses the general skills and strategies of the writing process
4. Gathers and uses information for research purposes

Reading

5. Uses the general skills and strategies of the reading process
7. Uses reading skills and strategies to understand and interpret a variety of informational texts

Viewing

9. Uses viewing skill and strategies to understand and interpret visual media

Life Skills

Thinking and Reasoning

1. Understands and applies the basic principles of presenting an argument
2. Understands and applies basic principles of logic and reasoning
3. Effectively uses mental processes that are based on identifying similarities and differences

4. Understands and applies basic principles of hypothesis testing scientific inquiry

Time Frame: 2 class periods

Background: There is much interest in politics today as America readies itself for another round of national elections, but votes are being cast each Monday through Friday as buyers and sellers make exchanges in stock markets around the world. You may have never thought of it in this way, but it's true. Each time an investor buys a stock, they are essentially casting a vote for that company and/or some aspect of that company's product line. They are exercising a fundamental tenet of the market economy and democracy...choice. Those votes or choices are registered in a number of ways, but essentially the results are tallied electronically and those results may be seen and tracked almost instantaneously on the internet and later by the appearance and disappearance of products and companies. So how does this all work and what is a stock anyway?

Stocks are shares of a company and those who buy them are called "share holders." That's simple enough, but why would a company sell parts of itself and why would someone want to buy part of a company? First, let's start with the company. Most companies start with a person or group of persons who have an idea. They may have an invention or a new way to apply an existing invention to create an innovation. What brings them together and gets them to act is what the 18th century philosopher Adam Smith called "self interest." This self interest may be the desire to make a profit, a hope to benefit mankind, the excitement of a challenge, a combination of these, or any number of other things, but this self interest moves them like "an invisible hand" to take a risk. These risk-takers, also known as entrepreneurs, usually want to get their product into the hands of as many people as possible otherwise their goals cannot be actualized. These men and women have many questions to answer and many problems to overcome before they can bring a product to the market (consumers). Now, let's look at a real example.

The Story of Two Steves: In the early 1970's two guys who had an interest in computers and being their own bosses, Steve Wozniak and Steve Jobs, decided to take a risk with their time, their human capital, and what little money they had. They decided to build small, "personal" computers. There were a number of other people (competitors) engaged in similar work, but the two Steves wanted to make something that was easy to use and innovative in its format. There were many people who were interested in their idea of a simple, portable computer which displayed its characters on a television screen, but they lacked a way to produce their computer quickly (remember the competition), affordably, and in large numbers. They needed money to get the business launched. A production facility (factory) had to be built. Workers had to be hired and paid. Then there would need to be continued research and development and advertising. Selling their calculators and VW's wouldn't nearly begin to cover those costs, so they first sought out venture capitalists...people who loan money to entrepreneurs that are worthy of the risk, but that money could only take them so far so fast. In the end, they decided that it would be smarter for them to seek out a large number of people who each had a

small amount of money to risk...to reach more investors and quickly raise more money for capital investment by selling stock.

An I.P.O. : Wozniak and Jobs went to the Securities and Exchange Commission (SEC) and got permission to make an Initial Public Offering (IPO) in 1980. At this time they offered a portion of the interest in the company for sale to buyers who were purchasing in hopes of making a profit (investors). The buyers usually use an experienced agent (stock broker) to make their purchase. In cases like this the company's stock is listed on an exchange that specializes in similar companies. Apple was listed on the NASDAQ. That stands for National Association of Securities Dealers Automated Quotations. The two other big exchanges in the U.S. that you've probably heard of are the New York Stock Exchange (NYSE) and the American Exchange (AMEX). The NASDAQ assigned a stock symbol to Apple. A stock symbol is an abbreviation of the company name. In this case AAPL. Knowing the abbreviation of a stock helps you to find out information about it.

The Vote: So where's "the vote" come into all of this? When the two Steve's decided to take their company to the public and offer shares (by the way, they retained the majority of the shares so that they could continue to control the company) for sale, the buyers in the market had the choice to buy the stock or to refuse to spend their cash on *Apple*. You know what happened; otherwise, we wouldn't all know about *Apple* and its products today. A lot of people bought *Apple* stock. In fact there was more demand for the stock at the original price than there were shares of stock to go around. This caused the price of the stock to go up. The votes were cast. *Apple* was a big success. But in the market economy the *invisible hand* can work for competitors too! Other PC makers got into the act as they saw what the public wanted and what they were willing to pay and they began to offer new products. This keeps the companies searching for new ways to get investors and general consumers to "vote" for their product by buying stocks or buying the products that companies make. If investors don't buy, they have to try harder to convince them with more advertising, newer/better products, and sometimes with lower prices. If they can't convince the investors to "vote" for them with their dollars, then they go out of business. Similar to politics, it's a tough world for the entrepreneur. Their rate of attrition is 80% in the first three years!

Key Concept: When consumers buy stock in businesses or purchase the products that those businesses produce, they are casting a vote for that business or product and against the business and products of the competitors.

Key Vocabulary:

- stock
- stock market
- investor
- shares
- share holders
- invention
- innovation
- invisible hand
- profit
- entrepreneur
- market
- consumer
- competition
- research and
- investor
- SEC
- NASDAQ
- NYSE
- AMEX
- demand
- supply

- self interest
- Adam Smith
- development
- venture capitalist
- IPO
- rate of attrition
- human capital

Content Area: Economics/business education

Materials:

- Word Splash poster paper (large chart paper for students to list the words that come to mind on this subject)
- Large colored markers
- Computer lab
- Paper and writing utensils for student notes
- TV/DVD or computer with Quicktime (to show *the.News* iPhone video segment for this lesson)
- A copy for each student of the “background” reading for this lesson
- Computer lab assignment handout

Lesson Plan:

Pre-teaching: Prior to teaching this lesson, as a homework assignment, ask students to see what they can find out about Apple, the stock market, and the iPhone.

Introduction: When students arrive in class the next day, tell them that you want them to participate in a Word Splash. Tell students that they are about to watch a short segment from *the.News* on the Apple iPhone, but before they do, you’d like for them to partner up or form small groups and, using the poster paper and colored markers, they should write down every word that comes to mind as they consider these words which you have written on the board: The stock market, Apple, iPhone, entrepreneurs, consumer, market, and voting. If the students made notes based on their homework assignment for the previous evening, they may use them. Give the students about 5-10 minutes to make their lists. After the listing/brainstorming (word splashing) process, the student groups should choose a spokesperson to come to the front of the room and present their word splash. Each group will share its list with the class. The teacher should make a master list as each group presents. The teacher should post the master list and review it with the class. The teacher may want to collect and post the student lists. Listing the words allows students to activate prior knowledge. Leaving the list posted and calling attention to it at the lesson’s end is a way for the teacher and the students to assess their learning. Now show *the.News* segment on the Apple iPhone.

Assignment: After the students view the iPhone news feature, give each student a copy of the “background” handout for this lesson. Give the students a few minutes to read the handout and then review the vocabulary terms with them. Ask the students to list the vocabulary terms and lead them through writing a brief definition for each term. If there are not enough computers in your classroom, take the students to a computer lab. Pairing up the students or creating small groups may be a good idea here. This partly depends upon the availability of computer stations in your lab, but pairs generally work very well

for this type of assignment. Once you are in the lab, give each student a copy of Computer Lab Assignment Handout Instructions / Assignment.

Student's Name _____

Date _____

18. How do you think Apple's competitors will react to the popularity of the iPhone? Name something specific that you think Palm and or RIM will do.

19. How do consumers like you (even though you may not own stock) benefit from the competition between companies like Apple, RIM, and Palm?

20. Since everything has a cost, what can the "downside" of this competition be?

21. Now, when you go back to class, look at the "word splash" poster that you and your classmates created when you started this assignment. In one, good paragraph (about ½ page), please summarize what you've learned.

iPhone Lesson Plan Author: Ken Karrer, Academic Director, LBJ High School,
Austin, TX. kkarrer@austinisd.org, Foundation for Teaching Economics Natl. Mentor
Teacher

Suggested readings:

The Wisdom of the Crowds, by James Surowiecki

Blink, by Malcolm Gladwell

Apple Confidential, by Owen Linzmayer

Freakonomics, by Steven D. Levitt and Steven J. Dubner