

## Lesson 7

# Save and Invest: An Entrepreneurial Spirit

### Lesson Description

In this lesson, the introduction describes the four types of productive resources and identifies the unique contributions of the entrepreneur in the productive process. Working in groups, students assume the role of an entrepreneur. They create a new product or service and a marketing plan. Each group presents its idea to the class, followed by class discussion of the likelihood of its success. Students complete a graphic organizer about the creativity and assumed risks of their fellow students' ideas and discuss the role of government in providing competitive markets and property rights. The lesson concludes with an out-of-class assignment to interview a local entrepreneur and write a report about the creativity and risk taking seen during the interview.

### National Standards in K–12 Personal Finance Education ([www.jumpstart.org](http://www.jumpstart.org))

#### *Income and Careers*

Standard 1: Explore career options.

### Instructional Objectives

Students will:

- Identify the four types of productive resources.
- Analyze the difference between entrepreneurship and other productive resources.
- Analyze the creativity and risk taking demonstrated by their fellow students as they present their innovative ideas and marketing plans to the class.
- Evaluate the role of property rights and competitive markets in supporting entrepreneurs.

### Time Required

One to two 50-minute class periods plus student time outside class

### Materials Required

- Class set of *Entrepreneurs and the Economy* (EE) (available at [www.dallasfed.org/educate/everyday/](http://www.dallasfed.org/educate/everyday/))
- *Building Wealth* CD-ROM and/or class set of *Building Wealth*
- Copies of classroom visuals
  - *Visual 1: Entrepreneur*
  - *Visual 2: Productive Resources*
- Copies of the following handouts for each student
  - *Handout 1: Creativity and Risk*
  - *Handout 2: Interview with an Entrepreneur*

## Procedure

### 1. Ask students to answer the following four questions:

- Do you like taking risks and accepting challenges?
- Are you willing to endure some failures on your path to success?
- Do you look at things and wonder how they could be better?
- Would you prefer to work for yourself rather than for someone else?

Engage the class in discussion about individual student answers. Tell the students if they answered yes to these questions, they just might be an entrepreneur.

Give the students time to read “What Is an Entrepreneur?” (EE).

Point out that much has been written about the difficulty of defining entrepreneur and identifying entrepreneurial qualities. The word comes from a French verb “entreprendre,” which means “to undertake.”

Ask the class what the entrepreneur may be undertaking. (*Answers will vary. The conclusion will include undertaking the risk of a business enterprise.*) Point out that the innovation must be taken to the marketplace. It can be a new product or service or an established product or service in a new market.

Display *Visual 1: Entrepreneur*. Read the definition of the word **entrepreneur** out loud and briefly discuss it. Preview the lesson by focusing on two parts of the definition:

- The entrepreneur as innovator and risk taker
- The entrepreneur as the organizer of economic resources

Point out that Duncan (on *Visual 1*) is a character from BW.

Play BW CD-ROM (*Save and Invest, Other Investment, Duncan Invests in a Small Business*) (Alternative, have students read BW, page 18, “Start Your Own Business.”)

Ask students if Duncan fits the definition of entrepreneur (innovator and risk taker). (*Conclusion will recognize Duncan for his innovative idea of starting his own business and for taking a risk with his savings to finance the business.*)

### 2. Display *Visual 2: Productive Resources*. Tell students that resources can be grouped into four categories.

Use the following abbreviated definitions to discuss each one.

- Land—Natural resources
- Labor—Human resources
- Capital—Manufactured resources
- Entrepreneurship—Innovation and undertaking that result in a new idea in the marketplace

Ask students to work in pairs. Assign the pairs to read “Entrepreneurs as Vital Resources” (EE).

Ask students to give examples of the four productive resources and to identify the way Duncan utilized them. Ask the pairs to share their responses with the class. Answers may include:

- Land—soil, water, minerals, sun, etc. (The lot or land that Duncan’s warehouse sits on)
- Labor—workers or any human physical or mental endeavor used in the production process (Duncan’s

long hours of work and those he hires to help operate the business)

- Capital—buildings, equipment, machines (Duncan’s warehouse, the printing press, computer)
- Entrepreneurship—innovation and risk taking (Duncan’s risk taking to use his savings to finance his innovation, starting his own printing business)

Continue the interaction by asking students to identify some of the incentives an entrepreneur may have. (*Answers may include “to make a profit; to engage in a challenging endeavor; to make themselves, families or communities better off; to become rich and famous.”*)

Summarize by emphasizing the following:

- Entrepreneurs devise new ways of using land, labor and capital, but those resources could have been used in other ways.
- The work of the entrepreneur brings new products to the market to meet the demand of the buying public.
- The entrepreneur has an idea, invests time and money to gather resources and brings the good or service to the marketplace.

3. Divide students into groups of five. Have students read “Entrepreneurs and Creative Destruction” (EE). Ask the groups to function as an entrepreneur. They are to use their entrepreneurial spirit to present to the class an innovative idea of a product or service and a plan to get the idea to the marketplace. Their presentation will include:

- Description of the innovative product or service
- Explanation of why this innovation will be successful (What problem does it solve or what improvement does it make? Does it involve creative destruction?)
- Examples of the resources needed to produce the product or service (land, labor, capital and entrepreneurship)
- Estimation of its potential profitability (What will it cost to produce the innovation? What would be a reasonable retail price? How much will it cost to advertise?)
- Ideas for financing the project (savings—like Duncan did—or borrowing)
- Description of risks (financial—losing savings or inability to pay back a loan; opportunity cost—the loss of time and energy that the entrepreneur could have devoted to other endeavors.)

*Note: The presentations can be as elaborate or as simple as the teacher wishes—a verbal presentation without props or one in which students are encouraged to be creative.*

After the groups make classroom presentations, ask the other students:

- Do you think the product or service will bring change and progress to an economy?
- Would you buy the product or service?
- What are the risks involved?

Distribute *Handout 1: Creativity and Risk*. Have students complete the handout using the information from the classroom presentations.

*Note: You may wish to have the students vote on their favorite innovation.*

4. Have students read “Entrepreneurs in the Marketplace” (EE). Emphasize the importance of the market system in the allocation of resources.
  - When entrepreneurs take their ideas to the marketplace, they are willing to assume financial risks, along with other types of risk, in the hope of earning a profit.

- The talents of the entrepreneur are directed to the tasks that are valued by the buying public.
- Land, labor and capital are efficiently used because entrepreneurs do not buy resources to produce things that will not sell in the marketplace.

Have students read “Incentives for Entrepreneurship” (EE). Ask the students:

- What role do property rights play in the production process? (Property rights give entrepreneurs the assurance that they will retain the profit from their ideas.)
- What might happen without property rights? (The entrepreneur’s idea is not protected, so others can copy the idea and take away profits.)
- Does the government play an important role in the production process? (Yes, the government provides the foundations of an efficient economic system through policies and laws that support strong property rights and competitive markets.)

## Closure

5. Review the major points of class discussion using the following questions.

- What are the four types of productive resources?  
*Land, labor, capital and entrepreneurship*
- How is entrepreneurship different from the other three?  
*The entrepreneur organizes the other three resources in the productive process. If the other resources are fuel for production, entrepreneurship represents the “spark” that starts the engine.*
- Why is creativity an essential quality of an entrepreneur?  
*Entrepreneurs must conceive of a new way to combine land, labor and capital to create an innovative product that is desirable to consumers.*
- Why is the willingness to assume risk an essential quality of an entrepreneur?  
*Entrepreneurs must acquire the resources necessary to produce a good or service. In doing so, the entrepreneur assumes financial risk if the good does not sell. Also, the entrepreneur invests personal time and energy and incurs the opportunity costs of forgone income and endeavors.*
- How do private property rights create incentives for entrepreneurs?  
*These rights ensure that entrepreneurs will receive the profit from their ideas. Without the assurance that the entrepreneur will receive the profit, the person would be unwilling to assume the risk.*
- How do competitive markets allocate resources efficiently?  
*Entrepreneurs will only buy resources for production that are profitable (or are likely to be profitable in the future). If society does not value a product, the item will not sell and the business will not be profitable. If the business fails, the resources will be used by a different entrepreneur in a different enterprise.*

## Assessment

6. Distribute *Handout 2: Interview with an Entrepreneur*. Explain to the students that they should identify an entrepreneur who started a business in their community. They should make an appointment with the entrepreneur and conduct a brief interview in person or on the phone. Students could be allowed to conduct these interviews in pairs.

After the interview, students should write a short expository essay explaining both the creativity demonstrated and the risk assumed by the entrepreneur.

Student essays should be evaluated by considering the following questions:

- Does the essay introduce and describe the entrepreneur and the business?
- Does the essay identify and describe the creativity of the entrepreneur?
- Does the essay identify and describe the risks assumed by the entrepreneur?
- Does the essay use correct grammar, spelling and punctuation?

### Optional Assessment

*Note: The teacher may wish to use the interview as an activity rather than assessment. If that be the case, the following is an optional assessment:*

Ask the students to write a short expository essay explaining the following:

In your readings, you were told that entrepreneurs are like “the spark in an engine, igniting new ideas and discoveries that move the economy forward—they have a vision of what might be.” In your essay, explain what this statement means. Include the definition of entrepreneurs, their role in productive resources, their value to the marketplace and economy. Give examples when possible.

Student essays should be evaluated by considering the following:

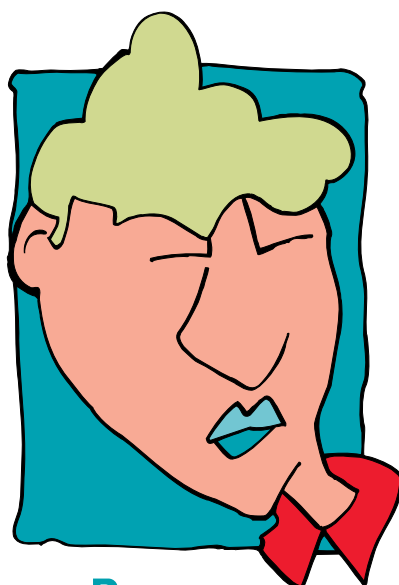
- Does the student give a thorough definition of entrepreneurs?
- Does the student give an accurate accounting of the four productive resources?
- Does the student effectively articulate the importance of entrepreneurship in an economy?
- Does the essay use correct grammar, spelling and punctuation?

### Optional Extension

Have students read “Great American Entrepreneurs” (EE). Ask them to research famous entrepreneurs and develop visuals, presentations and reports using the analytical framework of innovation and risk taking as important qualities for entrepreneurial success.

For additional information about creative destruction, see the 1992 Federal Reserve Bank of Dallas Annual Report, *The Churn*, at [www.dallasfed.org/fed/annual/index.cfm](http://www.dallasfed.org/fed/annual/index.cfm).

## Visual 1: Entrepreneur

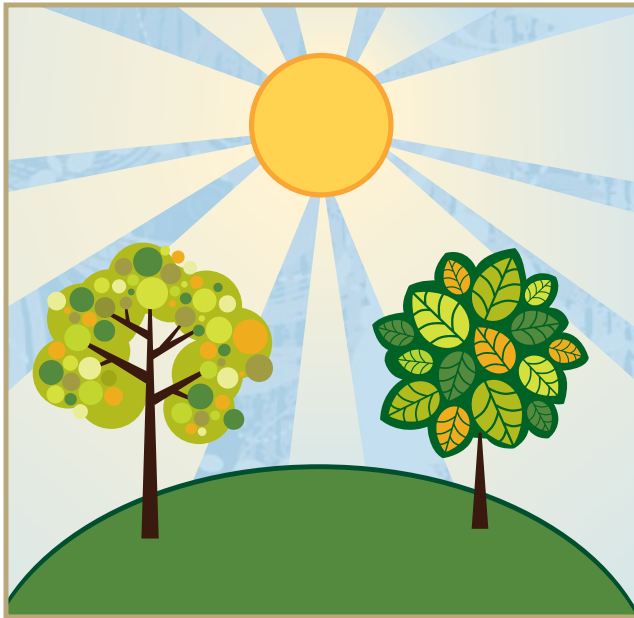


Duncan

An **entrepreneur** is an innovator and risk taker who tries a new way of doing things; a person who develops products and processes and organizes economic resources to please customers.

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### Visual 2: Productive Resources



LAND



LABOR



CAPITAL



ENTREPRENEURSHIP

Name: \_\_\_\_\_ Date: \_\_\_\_\_

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Handout 1: Creativity and Risk

| The Idea | Great American Entrepreneurs | The Risk |
|----------|------------------------------|----------|
|          | Group 1                      |          |
|          | Group 2                      |          |
|          | Group 3                      |          |
|          | Group 4                      |          |
|          | Group 5                      |          |
|          | Group 6                      |          |
|          | Group 7                      |          |
|          | Group 8                      |          |



Name: \_\_\_\_\_ Date: \_\_\_\_\_

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# Handout 2: Interview with an Entrepreneur

Name of the entrepreneur: \_\_\_\_\_

Name of the business: \_\_\_\_\_

Brief description of the business: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

When did you have the initial idea for your business? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Where did you get the money required to start your business? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What challenges did you face as you started your business? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What is a typical workday like for you? What types of responsibilities do you have? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_