Economic Game Changers: Friedrich Hayek | Worksheet

Matching

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

Column A	Column B
_____ Practices develop as populations experiment and adapt.	a. National Industrial Recovery Act
_____ Also known as the New Deal.	b. Classical Liberalism
_____ Period of heavy government intervention.	c. Knowledge Problem
_____ Hayek's most important work.	d. Spontaneous Order
_____ Economic cohesion through millions of choices.	e. Road to Serfdom
_____ Individual liberty, private property, free markets, etc.	f. Progressive Era

Multiple Choice

1. **Why did Hayek become skeptical that experts could successfully plan an economy?**
   a. No group could possess all the information needed to plan an economy.
   b. Experts could not agree on which industries deserved government support.
   c. Economic conditions changed too slowly for government plans to stay useful.
   d. Because experts had little interest in understanding how businesses operated.
2. **At a local farmers' market, sellers adjust what they bring and charge based on what customers choose to buy, without anyone directing the market. This is an example of:**
   a. Communism
   b. Central Planning
   c. Government Regulation
   d. Spontaneous Order
3. **Which statement best reflects the classical liberal view Hayek defended?**
   a. Government should direct economic choices when officials believe they can produce better results.
   b. Government should protect individual rights through clear laws while leaving people free to make their own economic choices.
   c. Individual freedom depends on the government ensuring that everyone reaches similar economic outcomes.
   d. Individual liberty requires people to be free from all laws and government authority.
4. **Recall Mises's lesson: What did Hayek build upon from Mises's ideas about prices?**
   a. Prices should be determined by the amount of labor used to make a product.
   b. Prices work best when experts adjust them as economic conditions change.
   c. Prices are mainly useful for showing businesses how much profit they have earned.
   d. Prices carry information that helps people make decisions and coordinate their choices.

Scan to watch episode:

Application
In a centrally planned economy, a committee decides how many sneakers to produce, which styles stores should sell, and where each pair should be distributed. The result is often shortages of shoes people need, surpluses of shoes they don't, and fewer choices for overall.

In a free market, different businesses produce sneakers based on function, location, materials, style, and cost. Buyers choose what works best for their needs, and businesses adjust based on those choices.

Compare and contrast the two scenarios. Explain how spontaneous order fits into the second scenario.

Historical Context

1. Hayek began his career believing Progressive Era ideals. What changed his thinking, and what did he come to believe about central planning?

2. Hayek wrote *The Road to Serfdom* during World War II, after watching economic and personal freedoms disappear in Nazi Germany and Soviet Russia. Why did he warn that giving government control over the economy could eventually threaten every other liberty?

Exit Ticket:
What is the central idea of Hayek's case for free markets, in a sentence or two?

Economic Game Changers: Friedrich Hayek | Answer Key

Matching

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

d. Practices develop as populations experiment and adapt.
a. Also known as the New Deal.
f. Period of heavy government intervention.
e. Hayek's most important work.
c. Economic cohesion through millions of choices.
b. Individual liberty, private property, free markets, etc.

a. National Industrial Recovery Act
b. Classical Liberalism
c. Knowledge Problem
d. Spontaneous Order
e. Road to Serfdom
f. Progressive Era

Multiple Choice

1. **Why did Hayek become skeptical that experts could successfully plan an economy?**
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In a free market, different businesses produce sneakers based on function, location, materials, style, and cost. Buyers choose what works best for their needs, and businesses adjust based on those choices.

Compare and contrast the two scenarios. Explain how spontaneous order fits into the second scenario.

Example Student Response:
In the centrally planned economy, the committee decides what shoes will be made and where they will go, but it cannot know exactly what every person wants or needs. This can lead to shortages, surpluses, and fewer choices. In the free market, buyers make their own choices and businesses respond to what people buy. This creates spontaneous order because no one person is directing the whole system. The choices of many buyers and sellers work together to influence what gets produced, where it is sold, and how much it costs. This is an important function of a healthy economy: allowing people to respond and adjust to changing needs, preferences, and conditions.

Guidance for Grading:

- ☐ The student accurately compares how decisions are made in a centrally planned economy and a free market.
- ☐ The student explains that central planners cannot fully know or respond to the changing needs and preferences of individuals, which can result in shortages, surpluses, and fewer choices.
- ☐ The student explains **spontaneous order** as coordination that develops through the choices and interactions of buyers and businesses without a central authority directing the outcome.
- ☐ The student uses clear reasoning, grammar, and mechanics in their response.

Historical Context

1. Hayek began his career believing Progressive Era ideals. What changed his thinking, and what did he come to believe about central planning?

   Example answer:
   After serving in World War I, Hayek shared the Progressive-Era faith that expert planning could prevent another catastrophe. Working under Ludwig von Mises — and reading Mises's book Socialism — changed his mind. He came to believe that prices compress vast information into numbers anyone can act on, and that any attempt to control them

robs competition of its power to coordinate people's efforts. Central planning, he concluded, cannot outperform the market.

1. Hayek wrote The Road to Serfdom during World War II, after watching economic and personal freedoms disappear in Nazi Germany and Soviet Russia. Why did he warn that giving government control over the economy could eventually threaten every other liberty?

   Example answer:
   Hayek argued that a government powerful enough to direct the whole economy must also override individual choices — what people make, where they work, what they may buy. Once economic freedom is lost, political and personal freedoms follow, as Nazi Germany and Soviet Russia had just demonstrated. That is why he called central planning a road to serfdom.

Exit Ticket:
What is the central idea of Hayek's case for free markets, in a sentence or two?
Example answer:
Hayek's central idea is that free markets coordinate an economy better than any planner could: knowledge is scattered among millions of people, and prices and competition allow each person to act on what only they know, whereas central planning concentrates power and endangers liberty.