Economic Game Changers | Grades 6+

Economic Game Changers: Joseph Schumpeter | Lesson Plan

How can economic change create both disruptions and opportunity?

Students will understand that Joseph Schumpeter saw a healthy economy as a constantly changing system driven by entrepreneurs and innovation, in which new products and methods create economic growth while replacing older businesses, technologies, and jobs.

Learning Objectives:

- Define the key terms: creative destruction, disruption, entrepreneur, and clusters of innovation.
- Explain Schumpeter's argument that innovation and entrepreneurship are major drivers of long-term economic growth.
- Analyze how new technologies and businesses can disrupt existing industries and create new ones.
- Evaluate why Schumpeter viewed economic growth as a process leading to corrections or sometimes crises.

Key Vocabulary:

- **Creative Destruction:** Schumpeter's idea that innovation drives economic growth by replacing old products, industries, and ways of doing things with new ones.
- **Disruption:** A major change that unsettles an existing market, often by introducing a new technology or a different way of producing something.
- **Entrepreneur:** A person who introduces new products, production methods, sources of supply, or ways of organizing business that can disrupt existing markets.
- **Clusters of Innovation:** Groups of major innovations that emerge around the same period and help drive periods of rapid economic growth.
- ***The Theory of Economic Development:*** Schumpeter's 1912 book, in which he argued that capitalism's constant change and instability are sources of its strength.
- **University of Vienna:** One of the world's leading centers for economic theory, where Ludwig von Mises (1900–1906), Joseph Schumpeter (1901–1906), and Friedrich Hayek (1918–1923) studied.

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

Academic Subject Areas: Economics, U.S. History, Civics, Political Philosophy

What You'll Need

- Video: *Economic Game Changers: Joseph Schumpeter* (Watch Here)
- Worksheet: *Economic Game Changers: Joseph Schumpeter* (Link Here)

- Whiteboard for writing and a TV / Monitor to show video

Lesson Plan (45 mins.)

Warm-Up: (10 mins.)

Teacher Note on the Historical Context: Joseph Schumpeter developed his economic ideas during an era of extraordinary technological and economic change. The late 1800s and early 1900s brought transformative innovations such as electric power, automobiles, and airplanes, while new industries and large corporations rapidly reshaped everyday life. World War I and, later, the Great Depression brought severe economic disruption and increased demands for greater stability and government management of the economy. In the United States, the New Deal expanded federal efforts to regulate industries and manage economic activity. Schumpeter challenged the growing assumption that a healthy economy should always be stable and predictable. He argued that capitalism advances precisely because it is constantly changing: entrepreneurs introduce innovations, older products and industries are displaced, and new ones take their place. Understanding this turbulent period helps explain why Schumpeter came to see creative destruction—not stability—as a driving force of economic progress.

1. Introduce the idea of **economic disruption** to students: new products and technologies can make life better for consumers while creating real difficulties for businesses and workers whose products are being replaced. Tell students that today's economist, Joseph Schumpeter, asked a provocative question: Is change sometimes necessary for economic progress even if it comes with new challenges?
2. Ask students to imagine that a small town has had the same successful taxi company for decades. It employs dozens of local drivers, dispatchers, and office workers. Then a new transportation company arrives with an app that lets customers request a ride from their phones.
    - Customers can see when their driver will arrive.
    - Drivers can find customers without waiting for a dispatcher.
    - Prices are often lower.
    - More people begin using the new service.
    - The old taxi company starts losing customers and may have to lay off workers or close.
    - Tell students that town leaders are considering a rule that would prevent the new company from operating in order to protect the existing taxi company and its employees.
3. Have students do a quick Think-Pair-Share:
    - Why might town leaders want to protect the taxi company?
    - Why might customers want the new company to be allowed to compete?
    - Who benefits if the town prevents the new company from operating? Who loses?
    - What might happen if businesses were always protected from new competitors or technologies?

    - **Can an economy make progress without allowing some old ways of doing things to disappear?**
4. Write each Key Vocabulary term and its definition on the board. Ask students to take notes.
5. Introduce today's *Economic Game Changers* video by explaining that students will see how Joseph Schumpeter argued that capitalism advances through a constant process of innovation and disruption. Entrepreneurs introduce new products and methods, older industries are displaced, and entirely new industries emerge—a process Schumpeter called **creative destruction**.

<u>Watch and Apply</u>: (25 mins.)

1. Watch the video *Economic Game Changers: Joseph Schumpeter* as a class.
2. After the video, discuss the following questions:
    - What did Schumpeter mean by **creative destruction**? What is being "destroyed," and what is being "created"?
    - How did the automobile disrupt the industries built around horse-drawn transportation? What new industries and jobs emerged as automobiles became more common?
    - What role does the **entrepreneur** play in Schumpeter's explanation of economic growth? How is an entrepreneur different from someone who simply manages an existing business?
    - Schumpeter argued that entrepreneurs can introduce new products, production methods, sources of supply, or ways of organizing businesses. Can you give an example of an innovation that disrupted an existing market?
    - What did Schumpeter mean by **clusters of innovation**? Can you think of any examples of clusters of innovation in the economy? (for example, what other new technologies or businesses came about because of the automobile).
    - How could innovation be the true engine of long-term economic growth?
    - Should the goal of economic policy be to prevent disruption? What might be gained or lost by doing so?
3. Review Schumpeter's main arguments. Place these on the whiteboard:
    - **Creative Destruction** → Innovation replaces older products, businesses, technologies, and methods with new ones.
    - **The Entrepreneur** → Entrepreneurs introduce something new that disrupts the existing market and changes what consumers or producers can do.
    - **Disruption** → A successful innovation can upset an established market by creating a new product, lowering costs, changing production, or making an older technology less useful.
    - **Clusters of Innovation** → Major innovations often arrive in groups rather than evenly over time. Developments such as steam power, electricity, and automobiles were examples of innovations that attracted investment, expanded production, lowered prices, and spurred periods of rapid growth.

    - **Economic Change** → As competitors begin new industries, profits eventually fall, and rapid expansion slows. Schumpeter therefore saw economic booms, corrections, and periods of disruption as natural features of an economy constantly adapting to innovation—not necessarily problems that could or should be eliminated.
4. Hand out the worksheet. Students can work independently or in pairs, depending on class needs.

Wrap-Up: (10 mins.)

1. Recap the lesson objectives. Go over the worksheet as a class, reviewing key responses and correcting misunderstandings as needed.
2. Return to the taxi company example from the Warm-Up. Ask students:
    - Now that you have learned about Schumpeter, how would he view the arrival of the new app-based transportation company?
    - What is being **destroyed (or disrupted)**?
    - What is being **created (or improved)**?
3. Reinforce Schumpeter's central argument: **economic progress requires change.** New technologies and businesses can disrupt older ways of doing things. But preventing that disruption also prevents people from receiving the benefits created by better products and production methods.
4. **Exit Ticket (Door Check):** Ask students to respond to the following question on their worksheets before handing them in:
    - **What is Schumpeter's main argument?**
5. Collect the worksheet as a formative assessment or class participation grade.

Optional Extension Activity

Students will trace what happens when one major innovation enters an established market. The goal is to make Schumpeter's key insight visible: an innovation does not simply create a new product. It sets off a chain reaction in which some businesses and jobs decline while entirely new industries, occupations, and opportunities emerge.

1. Setup (5 mins.):
2. Divide students into small groups. Assign each group one innovation:
    - Automobile, Electric light, Airplane, Personal computer, Smartphone, Streaming video, Online shopping, Artificial intelligence
3. Give each group a sheet of paper divided into three columns:
    - BEFORE → CREATIVE DESTRUCTION→ AFTER

Round 1 — Before the Innovation (5 mins.)

1. Students identify what existed before their innovation became widespread. For example, a group studying the automobile might list:
    - Horse-drawn carriages, Stable owners, Blacksmiths, Saddle makers, Horse breeders, Feed suppliers

2. Ask groups to identify at least three businesses, products, occupations, or habits connected to the older system.

Round 2 — The Disruption (5–7 mins.)

1. Students identify why consumers began adopting the innovation.
2. Ask:
   - What could the new product do that the old one could not?
   - Was it faster, cheaper, easier, safer, or more convenient?
   - Why would consumers voluntarily switch?
   - Which existing businesses would begin losing customers?
3. Students should identify both the benefits of the innovation and the immediate costs of disruption.

Round 3 — What Gets Created? (5–7 mins.)

1. Now have students look beyond the product itself.
2. Ask them to identify at least four new businesses, occupations, products, or industries that could emerge because of the innovation.
3. For the automobile, students might identify:
   - Automobile → paved roads → gas stations → mechanics → automobile dealerships → drive throughs → parking garages → auto insurance
4. The point is to show that innovation can create economic activity far beyond the original invention and may be immediate or happen over time.

Debrief (5–8 mins.)

1. Have each group briefly share:
   - One business, job, or product that declined.
   - One new business, job, or opportunity that emerged.
   - How innovation made consumers' lives better or easier.
2. Conclude by explaining that this is a healthy economy. There are winners, losers, new businesses, and old businesses. Things come and go based on the needs of the present.

Don't have time for the full lesson? Quick Activity (10-15 mins.)

Distribute the worksheet and have students complete it as 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.