Economic Game Changers: Milton Friedman | Lesson Plan

Why did the economic problems of the 1970s challenge Keynesian economics?

Students will understand that Milton Friedman argued that government efforts to correct the economy produced unintended consequences, and that economic stability and prosperity are better supported by predictable monetary policy, free markets, voluntary exchange, and individual choice.

Learning Objectives:

- Define the key terms: 1973 Oil Shock, stagflation, voluntary exchange, fiscal policy, monetarism, and Permanent Income Hypothesis.
- Explain Friedman's argument that changes in the money supply have a major effect on inflation and the broader economy.
- Analyze how the Permanent Income Hypothesis explains the way people respond to temporary and long-term changes in income.
- Examine why the stagflation of the 1970s challenged Keynesian economic policies.

Key Vocabulary:

- **1973 Oil Shock**: A period when several oil-producing nations cut off oil supplies to the United States, causing oil prices to rise sharply and creating widespread gasoline shortages.
- **Stagflation**: High inflation, high unemployment, and slow or stagnant economic growth occurring at the same time.
- **Voluntary Exchange**: The free choice of individuals to buy, sell, or trade goods and services when both sides expect to benefit.
- **Fiscal Policy**: The government's use of spending and taxation to influence the economy.
- **Monetarism**: A school of economic thought that emphasizes the impact of the money supply on the economy.
- **Permanent Income Hypothesis**: Friedman's idea that people base their spending on what they expect to earn over the long term rather than on temporary changes in income.

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

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

What You'll Need

- Video: *Economic Game Changers: Milton Friedman* (Watch Here)
- Worksheet: *Economic Game Changers: Milton Friedman* (Link Here)
- Whiteboard for writing and a TV/monitor to show video

Scan to watch episode:

Lesson Plan (45 mins.)

Warm-Up: (10 mins.)

Teacher Note on the Historical Context: By the late 1960s and early 1970s, the United States was facing growing economic pressures after decades of expanding federal involvement in the economy. Costly entitlement programs and the Vietnam War had dramatically increased federal spending, and the Federal Reserve compounded the trouble with accommodative monetary policies that expanded the supply of money and credit. Inflation was already increasing when the 1973 Arab oil embargo caused oil prices to spike, leading to higher transportation, manufacturing, and energy costs nationwide. With a slowing economy and rising unemployment, many of the Keynesian economic assumptions that had guided policymakers in the decades following World War II were coming under scrutiny. Economic turmoil continued through much of the 1970s, fueling public debate over government spending, monetary policy, inflation, and the proper role of government in managing the economy. Friedman addressed several economic ideas in his books, including *The Theory of the Consumption Function* and *A Monetary History of the United States*, which offered a counterargument to Keynesian thinking.

1. Ask students to imagine that the concession stand at a school football game has only 20 slices of pizza available. Each student attending the game has $5 to spend, and each slice costs $2. Now imagine that every student is suddenly given an additional $20, but the concession stand still has only 20 slices of pizza.
2. Have students complete a quick Think-Pair-Share:
    - Did giving everyone more money create any additional pizza?
    - What would you expect to happen to the price of each slice?
    - Would each dollar buy as much as it did before?
3. Explain that Friedman described inflation as “too much money chasing too few goods.” When the amount of money grows faster than the goods and services available, each dollar loses some of its purchasing power.
4. Present students with a second scenario: Imagine two students who each earn $100 this month from different after-school jobs.
    - Student A is hired to help a neighbor with a one-time project and earns $100. The job is finished, and the student does not expect to earn another $100 next month.
    - Student B starts a regular after-school job earning about $100 each month and expects the job to continue for the next year.
    - Ask students:
        - Which student is more likely to change their regular spending habits? Why?
        - Both students earned $100 this month, so what is actually different about their situations?
        - How do the students’ expectations about their future income affect the choices they make in the present?

5. Explain that Friedman believed people make spending decisions based largely on what they expect to earn over time, not simply on the money they receive today. This idea became known as the **Permanent Income Hypothesis**.
6. Write each key vocabulary term and its definition on the board. Ask students to take notes.
7. Introduce today's *Economic Game Changers* video by explaining that students will see how Milton Friedman argued that money supply, predictable monetary policy, free markets, and individual choices were essential to a healthy economy.

Watch and Apply: (25 mins.)

1. Watch the video *Economic Game Changers: Milton Friedman* as a class.
2. After the video, discuss the following questions:
    - What is stagflation? Why was it such a challenging problem?
    - What were the Keynesian principles that policymakers had assumed would work? What was happening instead?
    - What is the connection between the supply of money and inflation?
    - Why did Friedman think a consistent monetary policy would be better than constantly changing the money supply in response to economic conditions?
    - How does the Permanent Income Hypothesis challenge the idea that giving people additional money will automatically cause them to spend it?
    - Why do individual choice and voluntary exchange lead to better economic decisions than those made by government officials?
3. Review Friedman's main arguments. Place these on the whiteboard:
    - **Stagflation → A Problem to Keynesian Economics:** Keynes argued that government spending and fiscal policy could be used to stimulate demand and stabilize the economy, ideas he urged FDR to pursue during the Great Depression and that later shaped U.S. economic policy. But the New Deal failed to end the Depression, and by the 1970s Keynesian policymakers were unable to prevent stagflation—failures that strengthened Friedman's case against government economic management.
    - **Excessive Money Growth → Inflation**: Sustained inflation results when the money supply grows too rapidly relative to the amount of goods and services being produced.
    - **Consistent Monetary Policy → Greater Stability**: Friedman favored steady, predictable growth in the money supply rather than constantly changing monetary policy, arguing that government efforts to meddle with the economy had repeatedly produced instability rather than stability.
    - **Expected Future Income → Spending Decisions:** A temporary increase in income does not necessarily change a person's regular spending because people consider whether that higher income will continue.
    - **Individual Choice + Voluntary Exchange → Free Markets:** Friedman argued that individuals understand their own needs, circumstances, and priorities better than

government officials do. Voluntary exchange allows millions of individual decisions to coordinate economic activity without centralized direction.

4. Hand out the worksheet. Students can work independently or in pairs, depending on class needs.

<u>Wrap-Up</u>: (10 mins.)

1. Go over the worksheet as a class, reviewing key responses and correcting misunderstandings as needed.
2. **Summarize today's lesson:** Friedman rejected the belief that a government could reliably manage the economy and produce economic stability. He pointed to both the Great Depression and the economic turmoil of the 1970s as evidence that government intervention and poor policy decisions could make economic problems worse rather than solve them.
3. **Exit Ticket (Door Check):** Ask students to respond to the following question on their worksheets before handing them in:
    - **What was Friedman's main argument against Keynesian economics?**
4. Collect the worksheet as a formative assessment or class participation grade.

Optional Extension Activity

Set Up: Create a small classroom market with 10–12 items students would want, such as pieces of candy, stickers, pencils, or classroom privileges like homework passes, extra break time, or sitting next to a friend for a day. *(This is based on a class of about 25 students; the goal is to have some scarcity built into the activity - adjust items based on class size.)* You may use identical items or a combination of different items, but prepare the same number and types of items for both rounds so students can compare prices. Give each student $10 in play money for Round 1. Explain that the items will be auctioned to the highest bidder and that students may spend as much or as little of their money as they choose. **Keep each auction brief to maintain the pace of the activity.**

Round 1: The Classroom Market

1. Auction the items one at a time.
2. Allow students to bid using their $10 in play money.
3. Record the final selling price of each item on the board.
4. When all items have been auctioned, leave the prices displayed for comparison.

Round 2: More Money Enters the Market

1. Reset the market with the same number and types of items from Round 1.
2. Give each student $20 in fresh play money. Do not carry over any money from Round 1.
3. Conduct the auction again using the same rules. Do not tell students what you expect to happen.

4. Record each item's selling price next to its Round 1 price.
5. Compare the prices from the two rounds.

Discussion: Ask students

- What did you notice happen after we changed the amount of money everyone had for Round 2?
- What happened to the prices of the items? Why do you think that happened?
- Did the number of items available change or stay the same?
- Did doubling everyone's money allow the class to buy twice as many things?
- What happened to the purchasing power of each dollar?
- What would happen in a real economy if the supply of money grows much faster than the supply of goods and services?

Connect to Friedman: Friedman argued that sustained inflation is closely connected to excessive growth in the money supply. Simply increasing the number of dollars in an economy does not create additional goods and services. When more money competes for the same amount of goods, prices tend to rise.

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.