**The Rule of Law and the Economy**

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| **Class:** Economics |
| **Unit:** Basic Economic Concepts/Systems |
| **Lesson Title or Topic/Essential Questions:**  The Relationship between Governments and Economies |
| **Estimated Classroom Time Required for the Lesson:** 3-4 hours (if all listed activities are used) |
| **Content Standard Alignment:** Idaho State Standards (9-12):  Students will analyze data and read about the rule of law in different countries. Students will compare and contrast the U.S. legal system with other countries and evaluate why and how the rule of law impacts economies.  9-12.E.3.2.2 Explain and illustrate the impact of economic policies and decisions made by governments, businesses,   and individuals. (512.01b)  9-12.E.3.2.1 Compare and contrast the characteristics of different economic systems and economic philosophies.   (510.01f)  9-12.E.4.2.1 Explain the basic functions of government in a mixed economic system. (512.01c) |
| **Lesson Objectives/Instructional Outcomes:**  How do governments impact economic decision-makers and address the role of incentives?  Why are well-functioning, reliable legal frameworks important to individuals, businesses, and the overall economy?  What effect does corruption/instability within the government have on economic growth, innovation, and opportunity? |
| **Lesson’s Relationship to Unit Structure:**  Before this lesson students will understand:   * Opportunity cost and marginal decision-making – this the foundation for economic analysis * Basics of the two main economic systems – capitalism and socialism * Economic goals of a society – Students consider “ideal” economies must prioritize economic objectives because attaining one economic goal may conflict with attaining another economic goal.   This lesson (near the end of the unit) will focus on, examine, and analyze:   * Property rights, judicial effectiveness, and government integrity by looking at the U.S. and other countries’ legal environments * The foundations of our economic system * The role of government in the economy * Other nations’ systems, allowing comparisons to be made between the various economic systems.   The next unit is Supply and Demand. The foundation of supply and demand is voluntary exchange based on  property rights. If a buyer or seller is harmed, there needs to be effective legal recourse. Otherwise, markets  operate in a less than efficient manner, resulting in a lower standard of living. Students will then examine other  roles of government in a market-based economic system (e.g., providing public goods, correcting externalities,  protecting the competitive process/antitrust issues). The current lesson supports the next lesson by  demonstrating that:   * Basic institutions such as a court system are essential for the protection of the individuals’ basic rights * The state alone can protect such rights and, by doing so, promote stability, confidence, and predictability in the economy.     **Concepts and terms necessary to the lesson include:**  Property rights – enforcement, clearly defined  Government Integrity – government institutions that punish corruption such as bribery and cronyism  Judicial Effectiveness – having an independent and impartial judicial process as well as an efficient system for enforcement  Rule of Law – principle that *all* people are subject to the law and the law is fairly and consistently applied and enforced  Government’s role in a market economy – protecting individual liberty, correcting for market imperfections, creating necessary institutions such as a judicial system |
| **Instructional Materials/Resources**  Lesson vocabulary includes:  Property  Efficiency  Regulation  GDP per capita  **Activities incorporate the following handouts:**  *Economics – Unit 1 Learning Map* (This is the entire unit in one page, providing a roadmap for students so they can see the connections of past content to the current lesson.)  *Property Rights in a Market Economy* – Fish Activity  *Heritage Foundation’s Index of Economic Freedom – Rule of Law*  *Examining the Rule of Law across Countries* |
| **Methods and Instructional Strategies** |
| **Concept Prerequisites**  Economic efficiency  Economic growth  Incentives  Market system |
| **Anticipated Student Misconceptions**  Rule of law requires following basic laws such as speed limits. It is hard for students to see the broad implications of rule of law in terms of institutions. Also, because of what students may hear on the news or experience, they may be very skeptical of the idea of an independent and impartial judiciary system (e.g., perceptions that ideology, power, and wealth unfairly influence the system). |
| **Introduction/Anticipatory Set**   1. In advance of the class, write the following on the board: “Why are some harvested species of ocean fish endangered – but not chickens, even though we eat a great number of chickens?” Have students answer the question individually in writing. 2. Have students perform the Fish activity (see handout titled, *Property rights in a Market Economy – Fish Activity*). 3. Discuss answers to the “warm-up” question after the Fish Experiment. |
| **Instructional Activities**  Some activities may be assigned out-of-class:   1. Individual – question listed in Anticipatory Set (above) – stimulate higher order thinking of analysis and evaluation 2. Full Class – handout *Economics: Unit 1 Learning Map* used to review past content needed to understand and show students where the lesson is headed – knowledge, comprehension 3. Fish Activity – 10 students, debrief the activity as a class – build knowledge, comprehension, and analysis 4. Individual - read the handout, *Heritage Foundation’s Index of Economic Freedom*: *Rule of Law* – build comprehension (including vocabulary) 5. Full class (direct instruction) – handout, *Examining the Rule of Law across Countries* – comprehension, analysis 6. Group work – comprehension, analysis, synthesis, and evaluation 7. Class presentations – knowledge, comprehension, evaluation 8. Final Individual assignment – handout, *Examining the Rule of Law across Countries* - comprehension, analysis, synthesis, evaluation.   In terms of questioning techniques, at least with the Fish experiment and the chicken/harvested fish question, consider using the Socratic method, answering students with questions to probe deeper thought.  Grouping strategies – avoid pairing friends with friends; consider using a 1,2,3,4 number method. Consider grouping together those students who tend to dominate group discussions. Grouping needs to consider that all people have a chance to contribute and that they remain on-task – you must know your class.  Some questions to consider:   * What policies would best encourage economic freedom (and hence economic growth), while preserving the rule of law? What challenges might make such policies difficult to implement? * Why are well-functioning, legal frameworks important to individuals, businesses, and the overall economy? * What does corruption within the government do to economic growth, innovation, and opportunity? * Do you think the average American citizen needs to know about the rule of law? Explain. * What is the point of learning about the rule of law in an economics class? |
| **Differentiation According to Student Needs:**  For accommodations, select capable, empathetic students to work in groups in which others might need added support/assistance. Substitute some of the more difficult/abstract questions with those that connect a concept directly to students’ personal experiences. For example:   * Why do we have traffic laws like speed limits (rule of law)? * How would you feel in a country where people ignored traffic laws? * How is owning a car different from renting a car? * Do you treat your car differently if you own it – explain why? * What do you believe about the court system in the U.S., based on what you have seen in the media? * What kind of characteristics would you want to have in a judge who is deciding on a criminal case and why is that important? * Should all people, no matter position or title, be held to obey the same laws – why? * Does the strength of the economy depend on the government’s protecting individual rights? Can you think of an example to explain your position?   In terms of written assignments, have a conversation on the questions above if students have a writing impairment. Students with limited English might need additional time and very simple questions to demonstrate an understanding of the content. |
| **Wrap Up- Synthesis/Closure:**  Students summarize and connect of the rule of law to the economy, using hard data to draw and support their conclusions. |
| **Assessment (Formative and Summative)**  Pose questions throughout presentations (direct instruction and activities) to gauge if students understand  the lesson’s key concepts and theme.  Select/design a summative assessment rubric that requires students to show clear connections between the rule of law and economic well-being. An example of a test question derived from the lesson follows.  **Summative assessment example:**  Select one of the following statements. Assess the validity of the chosen statement by composing an essay that states a clear thesis and presents persuasive arguments supported by specific, accurate, and relevant evidence (data, examples, illustrations). Be sure to ask for any necessary clarification.  1. The rule of law is an important factor that contributes to the strength of an economy.  2. Property rights and their protection are *essential* elements to a thriving market economy. |
| **Extension and Evaluation of the Lesson** |
| Examine selected current events related to the rule of law in the United States and create criteria that could be used to decide if we are becoming stronger or weaker in our adherence to the rule of law. Compare these criteria to those of organizations that promote the rule of law. Evaluate what selected organizations have concluded about rule of law in the U.S. Identify connections to topics under study/discussion in other classes (government, history, etc.).  The most important connections between the economics curriculum and the rule of law are made by looking at market structures and the competitive process. Antitrust laws are a good example of these connections, and part of the challenge of the judicial system is determining if mergers and acquisitions are fair and will benefit consumers. Find and examine antitrust cases in which students can see the complexity that arises when judges interpret law and why they make the decisions that they make.  The instruction could be considered strong if there is a productive class discussion about property rights and why they are so important (Fish activity). The level of students’ question to one another during the presentations will signal engagement. A successful lesson will require students to do research to find a good story and analyze it appropriately. Non-participation by students in the group assignment may require redesigning it as an individual assignment. Written reports can then be selected by the teacher and shared with the class to generate a teacher-guided discussion. Teachers might need to find rule of law stories/articles from other countries if this task proves too difficult for students. Having a file of these on hand is prudent. |

**Economics – Unit 1 Learning Map**

***Underlying Principles***

**\*Individuals (households)**

**\*Businesses**

**\*Government**

**\*EVERYONE!**

**Goals**

**\*Economic Freedom \*Economic Equity**

**\*Economic Security \*Full Employment**

**\*Price Stability \*Economic Efficiency**

**\*Economic Growth**

***\*Economics is all about assessing costs and benefits for***

***Individuals, businesses, and countries.***

***\*The true cost of something is what you had to give up getting it.***

***\*Resources are limited but wants are unlimited so understanding***

***economics enables a more complete picture for decision-making.***

influences decisions of impact

studies how to meet certain

**Resources Production**

**\*Land \*Labor \*Capital \*Entrepreneurship**

**Costs and Benefits**

coordinates the studies of is all about analyzing

must be viewed through the lens of

resources have alternative uses, so there are deals with main concepts are

**\*Opportunity Cost**

**\*Marginal Thinking**

**\*Scarcity**

**\*Efficiency/Incentives**

**Basic Economic Questions**

**\*What to produce? \*How to produce?**

**\*For whom to produce**

determines a nation’s affect

**Role of Government**

**\*Rule of Law \*Externalities**

**\*Public goods \*Correct market imperfections**

**Economic Systems**

**\*Command \*Market \*Traditional**

**Personal Finance**

**\*Investments**

**\*Spending/Budgets**

I explain govt intervention and the

**Examining the Rule of Law across Countries**

**Rule of Law**

Rule of Law can be defined as a principle that describes a society governed according to widely known and accepted rules followed not only by the governed but also by those in authority.

The rule of law benefits societies because it:

* Establishes limits on both those who govern and the governed
* Makes possible a system of ordered liberty that protects the basic rights of citizens
* Promotes the common good, predictability, and stability in society.

Go to [www.heritage.org/index/about](http://www.heritage.org/index/about)

Read the part “About the Index” and play the video with students answering the following questions:

1. How is the overall score determined: data or opinion?
2. List two things that result from a country that has more economic freedom.
3. According to the Heritage Foundation, economic freedom is not just about data, what is it about?

Have students read over the document “Heritage Foundation’s Index of Economic Freedom”.

RULE OF LAW

After students have an idea of what the three components measure, go to [www.heritage.org/index](http://www.heritage.org/index) and look up the United States.

Go to [www.heritage.org/index/heatmap](http://www.heritage.org/index/heatmap)

You can click on the 12 components, make sure to look at “Property Rights”, “Judicial Effectiveness”, and “Government Integrity”. Discuss as a class the following: Why is the rule of important? How do you think the U.S. ranks in terms of rule of law with other countries?

It is important to note that the Heritage Foundation is a think tank with a perspective not shared by everyone (you may need to explain what a think tank does). Students (individually or as a class) can explore other institutions/organizations with different perspectives. For example, the World Justice Project (WJP) in an independent, multidisciplinary organization working to advance the rule of law around the world. Visit its site at <http://data.worldjusticeproject.org/> and examine the United States.

**Group Assignment**

Organize students into groups of three or four people. Based off the “World Justice Project’s Rule of Law Index 2016” (or most current one), have student groups each select one country from the following list:

**A:** Denmark, Norway, Finland, Sweden, Netherlands, Germany (high quality rule of law)

**B:** Argentina, Brazil, Belarus, Bulgaria, Mongolia, Malaysia (medium quality rule of law)

**C:** Venezuela, Cambodia, Afghanistan, Egypt, Zimbabwe, Cameroon (low quality rule of law).

Try to achieve an equal amount of A, B, C countries. No group can have the same country as another group. Each group must find an article (within the last two years) that deals with a foreign country and the rule of law issue. The article must be at least 200 words and the group report must be at least 300 words.

* The report must be specific concerning the specific rule of law issue, preferably in the form of a story that has happened to an individual or business. The group must decide if the rule of law is fair, if not, what would be the best remedy to encourage economic freedom and hence economic growth. Additionally, address potential difficulties in making this suggestion a reality.
* Why are well-functioning legal frameworks important to individuals, businesses, and the overall economy?
* What effect does corruption within the government have on economic growth, innovation, and opportunity?

The teacher could also find a rule of law issue about the U.S. and present to the class to give students a good example to follow.

Groups must present the rule of law issue and analysis of the issue (solution and difficulties) to the class. All students not in the presenting group must write a 2-3 sentence summary of the presentation concerning the specific rule of law issue regarding the country being presented. Encourage student questions to ensure understanding and to stimulate further learning. This will be helpful for the final, individual assignment.

**Final Individual Assignment**

* Pick 20 random countries and write down their global rank <http://data.worldjusticeproject.org/#table>
* Go to the CIA World Factbook to look up GDP per capita for those same countries (GDP is a measure of the total value of goods and services produced by a country; GDP per capita is basically the average value of production per person in a country)
* <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>
* Attach your date above and write at least 200 words about the following:

Is there a relationship between rule of law and economic activity (GDP per capita)? Discuss how the presentations you heard in class illustrate importance of the rule of law. Do you think the average American citizen needs to know about the rule of law? Explain? What is the point of learning about the rule of law in an economics class?

Heritage Foundation’s Index of Economic Freedom (3 of the 12 components)

RULE OF LAW

Source: http://www.heritage.org/index/book/methodology#rule-of-law

**Property Rights**

The property rights component assesses the extent to which a country’s legal framework allows individuals to freely accumulate private property, secured by clear laws that are enforced effectively by the government. Relying on a mix of survey data and independent assessments, it provides a quantifiable measure of the degree to which a country’s laws protect private property rights and the extent to which those laws are respected. It also assesses the likelihood that private property will be expropriated by the state.

The more effective the legal protection of property, the higher a country’s score will be. Similarly, the greater the chances of government expropriation of property, the lower a country’s score will be.

The score for this component is derived by averaging scores for the following five sub-factors, all of which are weighted equally:

* Physical property rights
* Intellectual property rights
* Strength of investor protection
* Risk of expropriation
* Quality of land administration

Each of these sub-factors is derived from numerical data sets that are normalized for comparative purposes using the following equation:

Sub-factor Score i = 100(Sub-factorMax–Sub-factor i)/(Sub-factorMax–Sub-factorMin)

where Sub-factor i represents the original data for country i; Sub-factorMax and Sub-factorMin represent the upper and lower bounds for the corresponding data set; and Sub-factor Score i represents the computed sub-factor score for country i.

For a few countries, comparable data were not available for every sub-factor. In those cases, a score was computed for the missing sub-factor based on the relative percentile ranking of that country on the other sub-factors.

**Sources.** The Index relies on the following sources for assessing property rights: World Economic Forum, World Competitiveness Report; World Bank, Doing Business; and Credendo Group, Country Risk Assessment.

**Judicial Effectiveness**

Well-functioning legal frameworks are essential for protecting the rights of all citizens against unlawful acts by others, including by governments and powerful private parties. Judicial effectiveness requires efficient and fair judicial systems to ensure that laws are fully respected, with appropriate legal actions taken against violations. The score for the judicial effectiveness component is derived by averaging scores for the following three sub-factors, all of which are weighted equally:

* Judicial independence
* Quality of the judicial process
* Likelihood of obtaining favorable judicial decisions.

Each of these sub-factors is derived from numerical data sets that are normalized for comparative purposes using the following equation:

Sub-factor Score i = 100(Sub-factorMax–Sub-factori)/(Sub-factorMax–Sub-factorMin)

where Sub-factori represents the original data for country i; Sub-factorMax and Sub-factorMin represent the upper and lower bounds for the corresponding data set; and Sub-factor Score i represents the computed sub-factor score for country i.

For a few countries, comparable data were not available for every sub-factor. In each of these cases, a score was computed for the missing sub-factor based on the country’s relative percentile ranking on the other sub-factors.

Sources. The Index relies on the following sources for assessing judicial effectiveness: World Economic Forum, World Competitiveness Report; World Bank, Doing Business.

**Government Integrity**

Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relations. Of greatest concern is the systemic corruption of government institutions and decision-making by such practices as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft. The lack of government integrity caused by such practices reduces economic vitality by increasing costs and shifting resources into unproductive lobbying activities.

The score for this component is derived by averaging scores for the following six sub-factors, all of which are weighted equally:

* Public trust in politicians
* Irregular payments and bribes
* Transparency of government policymaking
* Absence of corruption
* Perceptions of corruption
* Governmental and civil service transparency.

Each of these sub-factors is derived from numerical data sets that are normalized for comparative purposes using the following equation:

Sub-factor Score i = 100(Sub-factorMax–Sub-factori)/(Sub-factorMax–Sub-factorMin)

where Sub-factor i represents the original data for country i; Sub-factorMax and Sub-factorMin represent the upper and lower bounds for the corresponding data set; and Sub-factor Score i represents the computed sub-factor score for country i.

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Sources. The Index relies on the following sources for assessing government integrity: World Economic Forum, World Competitiveness Report; World Justice Project, Rule of Law Index; Transparency International, Corruption Perceptions Index; TRACE International, The Trace Matrix.

**Property Rights in a Market Economy**

**Fish Activity**

**INTRODUCTION**

All market economies have several basic characteristics in common including private property, free enterprise, self-interest, competition, and a price system with limited government. *Property rights* are defined as individual ownership and control of resources and products – a paramount component of the market system. Property rights affect the way markets allocate resources and hence influence the standard of living.

*Standard of Living* is a term that describes the level of wealth, comfort, material goods and necessities available to a certain socioeconomic group or a certain geographic area (Investopedia.com). Oftentimes, quality of life measures are very closely related to standard of living.

If property rights are well defined and enforced and markets are competitive, a market system ensures that resources are used in their most valued manner. This lesson intends to show why this is the case. Private ownership creates incentives for people to develop resources to their most productive ends. For example, a family that rents a house is unlikely to make any kind of capital improvements on the house or property. By contrast, a family that owns the house has good reason to improve landscaping, put in a new hardwood floor, or install better fixtures in the bathroom. Such changes increase the home value, giving the family the ability to sell the house for more money in the future (if so desired).

What happens when property rights are not well-defined and enforced? This activity will show that people acting in their own self-interest will respond to incentives that do not reflect the best long-run outcomes. Environmental pollution provides many examples of this phenomenon.

Property rights are a part of a more general principle called the *Rule of Law* – that **all** people are subject to the law and that the law is fairly and consistently applied and enforced. If a high-ranking government official commits a crime, that person is punished the same as anyone else. For example, in Guatemala the president was convicted and punished for his role in a large bribery system connected to international trade.

**CONTENT STANDARDS**

* People respond predictably to positive and negative incentives.
* Institutions evolve in market economies to help individuals and groups accomplish their goals.

**ACTIVITY**

The link below has the detailed lesson plan with the fish activity. One suggestion: For every paperclip, allow students to “cash them in” for a Swedish Fish candy. A critical component to the activity is for students ***not*** to talk to each other before each round is played. This mirrors the real market – fishermen who compete against one another do not tell the others what they are planning to do!

<http://econworks.org/wp-content/uploads/2013/06/Lesson-4_14-Greatest.pdf>

**ADDITIONAL INFORMATION**

For more context, you may choose to use some of the Foundation for Teaching Economics Lesson 2 “Property Rights and the Rule of Law.”

<https://www.fte.org/teacher-resources/lesson-plans/is-capitalism-good-for-the-poor/lesson-2-property-rights-and-the-rule-of-law/>