Activity -- Gains from Trade Game

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Key Economic Concepts and Terms

- Trade promotes economic progress. (Common Sense Economics: Part I)
- Economic progress comes primarily through trade, investment, better way of doing things, and sound economic institutions. (Common Sense Economics: Part I)
- Free trade: A nation progresses by selling goods and services that it can produce at a relatively low cost and buying those that would be costly to produce. (Common Sense Economics: Part II)
- Limits on government regulation: Regulatory policies that reduce trade also retard economic progress.

Instructions for the activity

One of the most important concepts in economics is all trading parties gain from voluntary exchange. Yet, governments often pass laws that limit trades and frequently citizens support them. Here is a brief simulation that illustrates the gains from trade. It also shows how government regulatory policies that reduce trade retard economic progress.

1. Ask each student to bring to class one or two personal items to trade. Items can be hats, t-shirts, sodas, pencils, candy, library passes, and stickers. Students must have full ownership over the items they bring. Assure them that they can keep whatever they bring without consequence.

2. Ask students to identify what motivated the producer of their item to produce it. (*Desires to maximize profits*) Ask students to place a value on their item ranging from 1 to 10. A value of 1 is the lowest value placed on an item, and 10 is of maximum value. Add up the values of each row of students or of the class of students. Call this value economic wealth before trade.

3. Now tell the students that they can trade voluntarily as many times as they like. Remind students that no one is required to trade. Allow 5-10 minutes for the students to trade. Encourage students on one side of the classroom to trade with students on the other side. When the trading period is over, have the students rate the value of the items on a 1 to 10 scale, add up the numbers, and determine the overall value. Call this value economic wealth with free trade.

4. Compare the value of economic wealth before trade to the value with free trade. The value increased. This is the gains from trade, and no money exchanged hands.

5. Debrief the simulation with questions such as these:
   - How many of you made trades?
   - How many of you were better off because you made a trade?
   - Were any of you unhappy with a trade? Why?
   - Did any of you not trade? Why not?
   - Why do people gain by trading?

6. As a discussion question, ask students what would happen to total value if the "government" had levied a tax of $0.50 on each exchange.

7. Now consider conducting a command economy version of the trading game. As instructor of the class, you are "dictator". Now, redistribute items randomly. Try to take items of high value and give them to students holding items of low value. (Note: Without telling the students before you begin, return all items to original owners at the end of this round.) Ask students to assign new values to their items. Total, and call this value economic wealth with government regulation. Compare this value to the value of economic wealth with trade. The value should be less. Discuss the negative impact government regulation has on trade and incentive to be productive.

Related Activities

For another complementary activity, see the College and High School Instructor's Manual that accompanies the DVD video clips Microeconomics from John Stossel – College Edition" by James Gwartney, Joseph Calhoun, John Morton, and Mark Schug. The DVD containing both the clips and the Instructor's Manual is available from ABC Newstore.

For a high school version of this simulation, see "Lesson 1: Why People Trade," *Economics in Action – 14 Greatest Hits for Teaching High School Economics*, National Council on Economic Education, 2003.