Personal Income - Lesson Plan

Overview:

Personal Income is a measure of the size of a nation's economy.

Objectives:

Students will be able to:
❏ Define Personal Income
❏ Define Income Inequality
❏ Explain why excessive income inequality is undesirable

Background and Information:

Household Income: The sum of all income received by private households.
Income Inequality: Some households receive more or less income than others, creating income inequality.

Time:

45 Minutes

Materials:

❏ iPad
❏ **Gods of Money** app
❏ Personal Income Worksheets

Educational Goals:

❏ To develop an increased understanding of how the U.S. economy works.
❏ To understand what personal income is.
❏ To understand why personal income growth is important and desirable
❏ To understand that excessive income inequality is undesirable

Activity

I.   **LECTURE**   *10 minutes*
    A. "Personal Income" is the sum of all income received by private households in the country in one year.
    B. A household may be one person, a family, or several generations living under one roof.
    C. Because some households earn more money than others, their incomes are unequal: this is called income inequality.
    D. Some income inequality is inevitable.
    E. Some experts think that extreme income inequality is bad for the economy.
        1. Wealthy people tend to spend less of their savings. This causes less spending and slower economic growth.

        2. Lower-income families tend to borrow more money. If too many people cannot repay their loans, a financial crisis may follow

    F. Other experts think that rising income inequality is not bad for the economy.

        1. They say equality of opportunity is important.

        2. Income inequality occurs in every country.

    G. Some people think that the highest earning households make too much money while the lowest earning households make too little money.

II. DEMONSTRATION   *15 minutes*

    A. Start a Gods of Money session at Jan 1970

        1. On the iPad, open the **Gods of Money** app.

        2. Tap 'Start' Gods of Money.

        3. Tap 'Watch' historical data.

        4. Set the Start Date to Jan 1970.

        5. Tap 'Start >'.

    B. When the budget appears, dismiss it by tapping the checkmark.

    C. Tap the date in the upper right to pause the app.

    D. Double-tap on the Households box to expand it.

        1. The households box represents the yearly personal income of all households in the U.S.

        2. Households are divided into 5 parts.

        3. Each part represents the same number of people: 20% of the U.S. population. Each part is called a "quintile."

        4. The 20% of the population receiving the lowest income is called the "first quintile."

        5. The 20% of the population receiving the highest income is called the "fifth quintile."

        6. Each part contains the same number of houses (20).

        7. The size of each part represents the income it receives.

            a) The largest part is the one representing the fifth quintile, which is the 20%of the households with the highest income. In 1970, the fifth quintile received 43.04% of all income.

            b) The smallest part is the one representing the first quintile, which is the 10% of the households with the lowest income. In 1970, the first quintile received 4.05% of all income.

    E. In 1970, the average household in the top 20%, or the fifth quintile, received $20,520 each.

        1. That would be $127,000 today in today's dollars.

    F. The average household in the lowest income 20% (the first quintile) took home $1,932 each.

        1. That would be $22,960 today in today's dollars.

    G. Create a matrix (on a whiteboard, e.g.) of 3 columns and 6 rows. Fill in the names like this:

HOUSEHOLDS by INCOME	1970	1980
Highest Income 20%		
High Income 20%		
Mid Income 20%		
Low Income 20%		
Lowest Income 20%		

H. Record the percentage values for each household quintile for 1970.

I. Tap the checkmark to close the expanded view.

J. Quit and re-start the simulation at 1980:

1. Tap the gear icon in the upper right. The Options window will appear.
2. On the Options window, tap 'Quit.'
3. Tap Quit Simulation.
4. Tap '>.'
5. Tap' Start.'
6. Tap 'Watch.'
7. Set the Start Date to 'Jan 1980.'
8. Tap 'Start.'
9. When the budget for 1980 appears, tap the checkmark.

K. When the game date is Jan 1980, pause the app by tapping the date.

L. Double-tap on the Households box to expand it.

M. Record the percentage values for each income distribution quintile for 1980.

N. The matrix should now look like this:

HOUSEHOLDS by INCOME	1970	1980
Highest Income 20%	43.04%	44.25%
High Income 20%	24.49%	24.66%
Mid Income 20%	17.48%	16.80%
Low Income 20%	10.94%	10.19%
Lowest Income 20%	4.05%	4.10%

O. Create a line chart showing the change in household income by quintile for 1970 - 1980. The chart should look like this:

Household Income 1970 - 1980
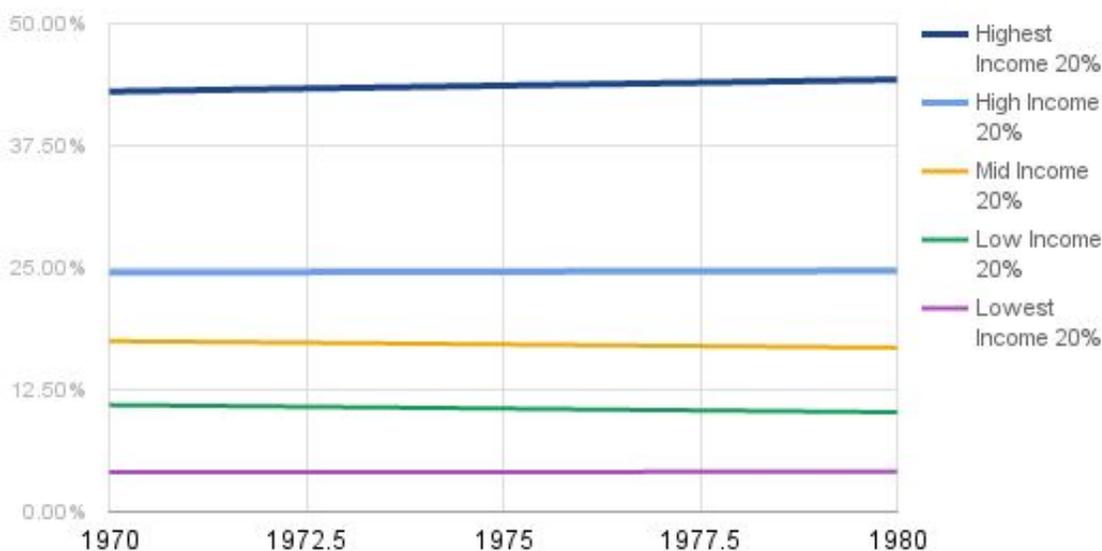
     P. Find the difference for each quintile by subtracting each 1970 value from its corresponding 1980 value. E.g. for the fifth quintile: 44.25% - 43.04% = 1.21%.

     Q. Discussion questions:

          1. Did income inequality increase or decrease from 1970 to 1980? **It increased slightly.**

          2. Which quintile increased the most? **The Highest income (or fifth quintile) increased 1.21%.**

          3. Which quintile decreased the most? **The Low income (or second quintile) decreased 0.75%.**

III. IN-CLASS ASSIGNMENT *20 minutes*

     A. Pass out the Personal Income Worksheets, one per student.

     B. Have students follow the instructions on the worksheet:

          1. Start and run **Gods of Money** to find and record the Personal Income quintile percentage values for 1970 through 2010 at 10-year intervals.

          2. Create a line chart showing the change in household income by quintile for 1970 - 2010.

          3. Use the values to answer the worksheet questions.

IV. HOMEWORK ASSIGNMENT *15 minutes*

     A. Assign students to complete the homework assignment on the worksheet.