

## Standard 10 : Role of Economic Institutions

### Students will understand that:

Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

### Students will be able to use this knowledge to:

Describe the roles of various economic institutions.

Institutions play a number of roles in a market economy. Property rights help insure that people bear the costs and reap the benefits of their decisions. Property rights and contract enforcement encourage investment by assuring investors that they will reap the rewards of deferring consumption and assuming risk if these investments perform well. Limiting individual liability and allowing people to pool their investment resources through joint stock corporations also increases investment and future income.

Other institutions lower the costs buyers and sellers incur in their efforts to find each other in different kinds of markets. For example, banks match savers with borrowers; and investment banks match entrepreneurs who organize new firms with investors who provide the needed funds.

Many institutions work to promote the goals of certain interest groups. Labor union, for example, increase the negotiating power of workers in their dealings with employers.

Understanding economic institutions and the purposes they serve will help students use institutions more effectively and help them evaluate proposed new institutions or changes in the existing legal and institutional environment.

## Benchmarks

### Grade 4

At the completion of Grade 4, students will know that:	At the completion of Grade 4, students will use this knowledge to:
Banks are institutions where people save money and earn interest, and where other people borrow money and pay interest.	Explain the relationship between saving money and earning interest and borrowing money and paying interest, after participating in an activity in which they role play savers and borrowers.
Saving is the part of income not spent on taxes or consumption.	Plan a budget for an allowance. The budget will include spending for goods and services, charitable donations, sales taxes,

	and saving.
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## Grade 8

<b>At the completion of Grade 8, students will know the Grade 4 benchmarks for this standard, and also that:</b>	<b>At the completion of Grade 8, students will use this knowledge to:</b>
Banks and other financial institutions channel funds from savers to borrowers and investors.	Listen to a presentation on the role banks play in channeling funds from savers to borrowers and investors and draw a diagram showing the role that financial intermediaries play among savers, borrowers, and investors.
Through the process of collective bargaining with employers, labor unions represent some workers in negotiations involving wages, fringe benefits, and work rules.	Read about the establishment of the AFL-CIO; explain why it emerged and what procedures it used to gain benefits for its members.
Not-for-profit organizations are established primarily for religious, health, educational, civic, or social purposes and are exempt from certain taxes.	Identify a not-for-profit organization and explain the rationale for its tax exemption or explain why it should not be tax exempt.

## Grade 12

<b>At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:</b>	<b>At the completion of Grade 12, students will use this knowledge to:</b>
Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.	Predict what might happen if there were no legal way to settle boundary disputes or if every state had its own system of weights and measures or currency; explain how strict liability for product defects affects the behavior of consumers and producers and how it affects the price of a good or service.
Incorporation allows firms to accumulate sufficient financial capital to make large-scale investments and achieve economies of scale. Incorporation also reduces the risk to investors by limiting stockholders' liability to their share of ownership of the	Play the role of a business consultant hired to advise a partnership on the advantages it could enjoy by incorporating; write a letter outlining these benefits for their client.

corporation.	
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