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Educational Notes

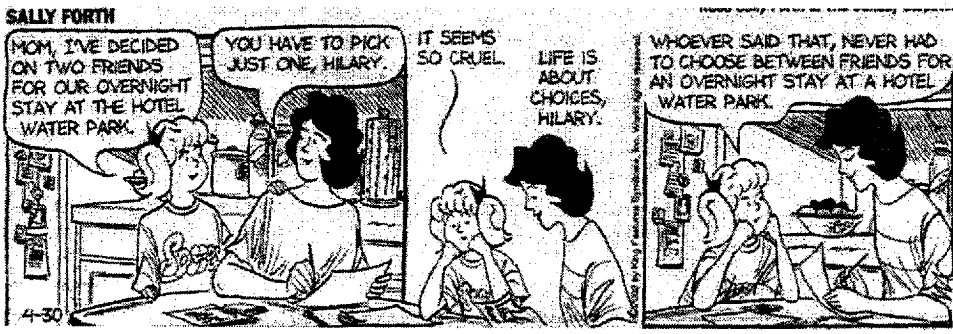
Teaching Economic Principles With Comic Strips

Robert A. Lawson
Capital University

Like many college faculty I occasionally tape a funny comic strip to my office door for students and other passersby to read. Sometimes these comics reflect my partisan political views, but often they merely represent some elementary economic principle. Recently, I have begun to use some of these comic strips in class during lectures and as a way to provoke discussion inside and outside of class.

This paper contains a few examples to illustrate how comic strips can be used to teach economic principles. Each comic strip contains a brief discussion of the economic principle involved and a question for thought and/or discussion. Interested readers are welcome to contact me for additional examples.

Choice

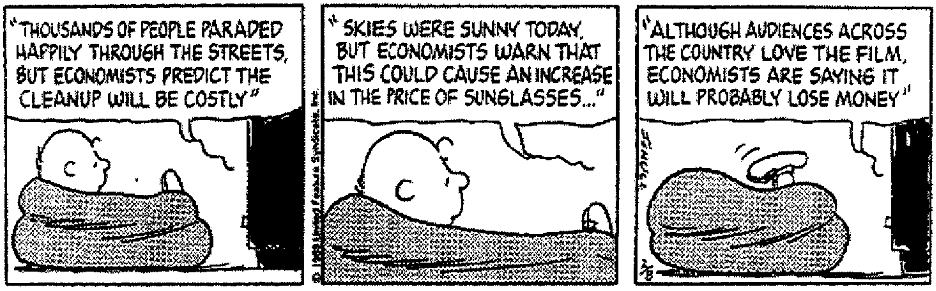


It may be cruel, but Sally is right; life is about making choices. In a world of scarcity we don't have enough resources available to satisfy our wants and desires; as a result we have to choose which of our wants and desires we are going to satisfy and which ones we aren't able to satisfy. For example, if you have only $20, you can spend it on many different things, but because your money is scarce, you can't spend it on everything you want. There simply isn't enough to go around. In the end, you have to choose what to spend your money on and what not to spent it on.

In this strip Hilary would like to invite more than two friends to the overnight at the hotel, but her mom will not let her. In economic terms, the number of people Hilary can invite is scarce, and so she has to make a choice about whom to invite.

Question for Thought: If you were Bill Gates, the richest person in the United States, what kind of tough choices would you have to make?

Cost



Economics is sometimes called the "dismal science"[1] in part because economists like to remind people that there is no such thing as a free lunch. If you make a choice to do something, there is going to be a lost opportunity, what economists call an opportunity cost. For example, if you spend $50 on a new shirt, then you can not spend $50 on a new pair of shoes. An economist would say the cost of the shirt is the loss of the opportunity to buy a new pair of shoes (or whatever else you might have done with the $50).

Charlie Brown apparently doesn't like being reminded about this. But isn't it true for instance that parades aren't free? If we have a

[1]The profession acquired the nickname "dismal science" in an honorable way. It stems from the Nineteenth Century pundit Thomas Carlyle, who was critical of the anti-slavery stance taken by most early economists. See David M. Levy and Sandra J. Peart. "The Secret History of the Dismal Science: Economics, Religion, and Race in the Nineteenth Century," in The Library of Economics and Liberty, January 22, 2001: http://www.econlib.org/library/Columns/LevyPeartdismal.html.

parade on a street, that means we can't use the street for traffic during that time. If we have to clean up the street afterwards, then the cleaning crew will have to forgo doing something else during the time it takes to do the clean-up. There is no avoiding these costs.

Question for Thought: Economics teaches that "there is no such thing as a free lunch" and yet some things like public education are given away. Is public education really free?

Incentives Matter

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The choices we make are influenced by the incentives (that is, the personal benefits and costs) we face when making those choices, and we respond in predictable ways to changes in incentives. If you want people to behave a particular way, it is often simply a matter of getting incentives right. If you want people to drive slower, you can increase the fines for speeding. If you want someone to wash you car, you can offer to do their dishes in exchange.

The student in this strip leaves little doubt that he would respond to a cash incentive to practice more.

Question for Thought: What kind of incentives does your teacher use to get you to study for class?

Environmental Incentives

Market prices give people an incentive to conserve resources. While no one enjoys having to pay for things, the good thing about prices is that they give you an incentive to economize on the use of resources. That is, we are encouraged to use resources only when the value provided justified the cost.

Earlier in this comic strip, Holly began paying the family's water bill from the proceeds of her part-time job. Now that she is paying for the water, Holly has become suddenly conscious of its use and begins badgering family members to use less water.

Question for Thought: In some areas where water is particularly scarce, such as southern California, it is not uncommon to see people watering their lawns even during periods of extreme drought. What do you think is going on?

Externalities and Efficiency

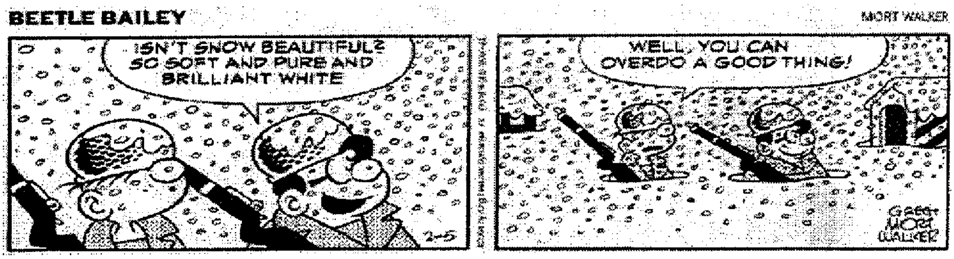
The concept of economic efficiency requires that we compare the benefits of our actions against the costs. When the benefits of a particular action exceed the costs, we say the action is efficient; when the costs exceed the benefits, we say the action is inefficient.

Under ordinary circumstances, people make efficient choices naturally because they typically choose to do only those things benefitting them more than the costs. However, there are exceptions to the rule.

One source of inefficiency in our lives is when some of the costs (or benefits) of our actions are borne by other people. Economics call these situations externalities. In this strip, the child wants a candy necklace. Since she is not paying for it, she will certainly want the necklace even if it is not worth $3 to her. But it is inefficient for anyone to consume something that costs $3 if it doesn't provide at least that much in benefits.

Question for Thought: Can you cite a few examples where you get to buy things using other people's money? How careful are you when you spend money in such circumstances?

Diminishing Marginal Utility



A little bit of something is often nice, but getting more and more and more of the same thing isn't necessarily so nice. Here Beetle expresses the economic notion of diminishing marginal utility as it relates to snow.[2] The principle of diminishing marginal utility states that the additional satisfaction you get from something diminishes as you get more and more of it. One slice of pizza is good; another is better, but not as good as the first; a third slice is just ok; a fourth slice is, well, not so good; and so on. Diminishing marginal utility explains why we don't keep eating pizza slice after slice after slice forever.

The principle of diminishing marginal utility helps us understand another economic principle: the law of demand. The law of demand states that people will buy more of something at lower prices than at higher prices. Another way of looking at demand is that the willingness to pay for something decreases as you get more of that thing. Because the added utility diminishes as you consume more of something, so too does the price you're willing to pay.

Question for Thought: Money appears to be one thing that most of us can't get enough of. Why don't we experience diminishing marginal utility for money in the same ways we do with other things like pizza?

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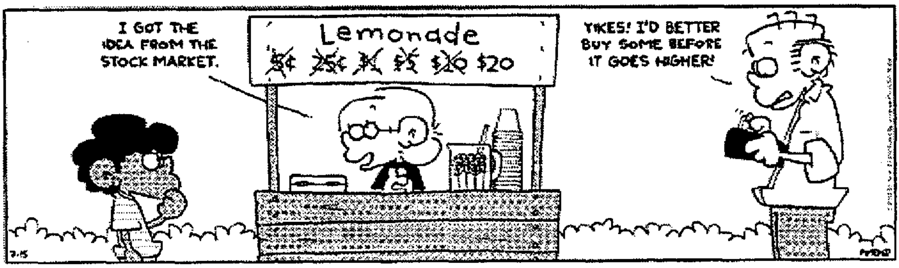
[2]Technically, the concept of diminishing marginal utility applies only to the choices we make. Although we don't choose the weather, in this case, it could be argued (orders notwithstanding) that Beetle does chose to remain outside and thus in a sense chooses how much snow he wants to enjoy.

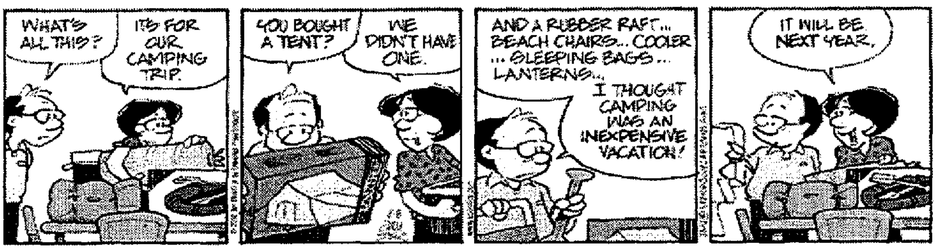
Price Expectations



When the price of a product is expected to increase, people have an incentive to buy the product sooner rather than later in order to avoid the higher future price. Similarly, if prices are falling, people often delay purchasing things until later to wait for the lower future prices. Think about how you would react if you learned that all the stores at the mall would be having a 50 percent-off sale next week. How much would you buy at the mall this week? In this *Foxtrot* strip, the son takes advantage of this knowledge with his gullible dad.

Question for Thought: When the threat of war or unrest increases in the Middle East, oil prices typically increase immediately even though no war may eventually break out. Why is this?

Fixed and Marginal Costs



Our comic strip couple has discovered the difference between fixed and marginal costs. Many of our choices involve both a fixed cost and a marginal cost. In economics we define fixed costs as any costs not related to the quantity of the good you are producing. Accountants might call such costs "overhead." Marginal costs are costs associated with making additional units of a good. Accountants might call these "operating expenses."

In this instance, the camping trip involves high fixed costs because all this equipment is very expensive at the beginning. But the cost of marginal (or additional) trips is going to be very low.

Question for Thought: Make a list of the various kinds of costs involved in running a business. Which ones on your list are fixed (i.e., unrelated to the quantity of business the firm does) and which ones are marginal (i.e., increase as the firm does more business)?