

TRANSACTION COSTS

Performance Standard 15D.J

Present information about purchases that students made and the transaction costs associated with them. Students also discuss purchases or other voluntary exchanges they wished to carry out but did not because of the transaction costs accordingly:

- *Knowledge*: describe the key concepts and ideas associated with transaction costs;
- *Reasoning*: analyze transaction costs to determine why a purchase was made or was not made; and
- *Communication*: create a chart and write a short essay that is organized, focused and detailed; express all ideas in a way that provides evidence of knowledge and reasoning processes.

Procedures

1. ***In order to understand trade as an exchange of goods and services (15D)***, students should experience sufficient learning opportunities to develop the following:
 - Define transaction costs and provide examples, and
 - Explain why reducing a transaction cost encourages exchange.
2. Have students review and discuss the following task and how the rubric will be used to evaluate their work.
3. Students receive instruction on transaction costs and their impact on voluntary exchange. Discuss with students the factors other than price or what is to be exchanged that make it more difficult to agree to the exchange. Also discuss how lower transaction costs make exchange more likely.
4. Each student lists several personal purchases made in recent months that he or she is willing to discuss. Fictional purchases may also be used
5. Have each student select two purchases they made and put each at the head of a column. The student then lists at least three transaction costs associated with each purchase.
6. Each student describes a potential purchase or other voluntary exchange that was not carried out due to high transaction costs and that he or she is willing to discuss. A fictional potential purchase or other exchange may be used as well. The transaction costs that had the negative impact should be listed.
7. The student then explains in a paragraph (or short essay) why a lower transaction cost would probably have led to the purchase or other exchange.
8. Evaluate each student's work using the Social Science Rubric as follows and add the scores to determine the performance level:
 - *Knowledge*: the identification of key concepts and ideas associated with transaction costs are complete and accurate.
 - *Reasoning*: the analysis gives an explanation for transaction costs to be factors other than price or what is to be exchanged that make it more difficult to agree to the exchange. The explanation would also suggest that lower transaction costs make the exchange more likely because only the price or respective desirability of what is to be exchanged is taken into account.
 - *Communication*: the written explanation is well-organized, well-focused and well-detailed; the knowledge and reasoning were completely and effectively communicated.

Examples of Student Work follow

Resources

- Paper and pen
- Social Science Rubric

Time Requirements

- One class period for writing

ASSESSMENT 15D.J

Transaction Costs

Purchase 1

Dinner

Purchase 2

CD

Transaction Costs

1. 5 hrs. of work
2. Money for X-mas
3. New Clothes

Transaction Costs

1. Lunch Money
2. Movie
3. Bowling

Potential Purchase

T.V.

I would have liked to buy a new 19" t.v. for my bedroom. I didn't because it was too expensive. A new 19" t.v. would cost between \$100 to \$120. I would have to give up buying a new pair of shoes, gas money, a present for my sister's wedding, and many other things to afford the t.v. If I would have bought the t.v. I would have lost out on many other things.

Transaction Costs

Purchase 1

Dinner \$45.00

Transaction cost

1. Money for Christmas
2. Lunch money
3. Weekend money

Purchase 2

Court Supervision \$160.00

Transaction Cost

1. Money for Christmas
2. Weekend Money
3. Gas money

DVD Player

I have wanted a DVD Player for a while, but have not yet purchased one. To get a quality one they are fairly expensive. It is a lot of money to spend just to upgrade the quality of movies that I watch at home. Also I would have to purchase DVDs to watch, so buying a DVD Player would be a growing expense. To come up with enough money to buy a DVD player I would have to cut back on my weekly spending. I would have to decrease the amount of time going out with friends and increase the hours I work.