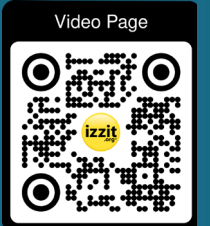


# FREE TRADE

**A personal view  
by Johan Norberg**



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# *Free Trade* Teacher's Guide

*This Teacher's Guide includes the following:*

- **Suggested Lesson Plan**
- **Key Terms**
- **Preview Questions**
- **Viewing Guide for Part 1**
- **Discussion Questions for Part 1**
- **Viewing Guide for Part 2**
- **Discussion Questions for Part 2**
- **Quiz**
- **Enrichment Activities**
- **Answer Key**

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## **Suggested Lesson Plan**

*These materials may be used in a variety of ways. For maximum benefit, we suggest the following lesson plan:*

- Discuss the **Key Terms** and **Preview Questions**. (These are intended to be read aloud by the teacher.)
- Distribute copies of the **Viewing Guide for Part 1: Markets** for students to use as a note-taking tool during the video.
- Play **Part 1** of the video (**Markets**), pausing if needed to facilitate note-taking and understanding.
- Review and discuss answers to the **Viewing Guide for Part 1** using the **Answer Key**.
- Use the **Discussion Questions for Part 1: Markets** to spark class discussion.
- If time permits and students are interested in exploring Free Trade in more depth, extend the lesson with **Part 2: Creative Destruction**, using the **Viewing Guide** and **Discussion Questions** as above.
- Optional: Administer the **Quiz**. (The Quiz covers the entire video.)
- Optional: Assign **Enrichment Activities**.

# *Free Trade*

## **Key Terms**

*Nobel Prize* – Any of various awards made annually, beginning in 1901, from funds originally established by Alfred B. Nobel for outstanding achievement in physics, chemistry, medicine or physiology, literature, and the promotion of peace; an annual award in economics was established in 1969 from private funds.

*Gross Domestic Product (GDP)* – The monetary value of all of a nation's goods and services produced within the nation's borders and within a particular period of time, such as a year.

*Per capita* – Per person.

*Tariff* – A government tax on imports, designed either to raise revenue or to protect domestic industry from foreign competition.

*Economic freedom* – Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others.

*Incentive* – Any factor, financial or non-financial, that provides a motive for a particular course of action, or counts as a reason for preferring one choice to the alternatives.

*Innovation* – The introduction of new products or methods.

*Zero-sum game* – a situation in which a participant's gain or loss is exactly balanced by the losses or gains of the other participants. Contrast with a non-zero sum game, such as trade, in which both participants gain.

*Demand* – The desire to own anything, the ability to pay for it, and the willingness to pay. The term demand signifies the ability or the willingness to buy a particular commodity at a given point of time.

*Market share* – The percentage of the market for a product or service that a company supplies.

*Early adopter* – A person who uses a new product or technology before it becomes widely known or used.

*Productivity* – Producing or tending to produce goods and services having exchange value.

# *Free Trade*

## **Preview Questions**

*These are intended to be read aloud by the teacher.*

1. When you hear the title, Free Trade, what do you think of?
2. What do you know about Hong Kong?
3. How does trade affect you?
4. How can something be both destructive and creative?

Name: \_\_\_\_\_

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## *Free Trade*

### **Viewing Guide – Part 1: Markets**

1. Milton Friedman won the \_\_\_\_\_ in economics.
2. Friedman's research led him to believe in the power of \_\_\_\_\_.
3. Hong Kong has few natural \_\_\_\_\_.
4. In 1980 when Milton Friedman visited Hong Kong, it was still a \_\_\_\_\_ colony, not part of China.
5. Without government invention in the economy, \_\_\_\_\_ became an economic powerhouse.
6. Between 1950 and 2000, Hong Kong's \_\_\_\_\_ increased ten-fold.
7. Since 1980, free markets have spread around the \_\_\_\_\_.
8. Adam Smith's book, \_\_\_\_\_, explains why the free market works.
9. \_\_\_\_\_ is what we do together of our own free will.
10. \_\_\_\_\_ that emerge in the market coordinate activities of millions of independent people, as if there is an "\_\_\_\_\_ " at work.
11. In the market, we \_\_\_\_\_ with our pocketbooks.
12. In a market economy, in order to make your life better, you have to \_\_\_\_\_ the lives of others.
13. Even a product as simple as a \_\_\_\_\_ is the result of complex interaction among thousands of people.
14. The free market not only promotes productive efficiency but also fosters harmony and \_\_\_\_\_.
15. The places where people have the most \_\_\_\_\_ are the countries where the standard of living is the highest.

## *Free Trade*

### **Discussion Questions – Part 1: Markets, Page 1**

1. What is a free market?
2. Why did economist Milton Friedman travel to Hong Kong in 1980?
3. How was Hong Kong able to prosper despite its lack of natural resources?
4. Why was Hong Kong allowed economic freedom after World War II even though China became a communist country?
5. Besides material wealth, on what other quality of life measures did Hong Kong match western countries by 1980? Why do you think this happened?
6. What did Milton Friedman mean by an “atmosphere of incentive”? Why do incentives matter?
7. GDP per capita is just a number. Why should we care if it increases? How does it affect the life of the average person?
8. Why has much of the world tried to follow Hong Kong’s example?
9. “When we say that a market is free it sounds a bit like a dog-eat-dog economy.” Does it sound this way to you? What would a dog-eat-dog economy be?
10. Why might some people see a free market economy as dog-eat-dog? Why didn’t Friedman see it this way?
11. What is voluntary association? How is trade – buying and selling – a type of voluntary association?
12. Besides trade, can you think of other examples of voluntary association? What about involuntary association? List three examples of each.
13. How do prices influence people’s actions? How does this produce order?
14. If no one is dictating prices from above, where do prices come from?

## *Free Trade*

### **Discussion Questions – Part 1: Markets, Page 2**

15. “We vote with our pocketbooks, and all around the world, people spring into action, to satisfy our demands. Every purchase sends a message.” Explain.
16. If more people purchase tomatoes at their current price, how does that influence Ng Choi’s pricing decision? What other decision-makers will respond to the prices Ng Choi is charging? Does Ng Choi need to know why a person would rather spend money on tomatoes than on another good?
17. In the film, tomatoes, fish, and cell phones are used to show how markets work. Think of some other examples of producers changing what they offer based on changing consumer preferences.
18. How does the production of a pencil illustrate the “invisible hand” of the market?
19. Compare trade to driving. Usually, there is no one directing traffic. People aren’t told where to go, or when, or how to get there. How can people cooperate without knowing each other’s desires, goals, or intentions?
20. How does the operation of the free market promote not only productive efficiency, but also peace and harmony among the people of the world?
21. “Some say free trade takes away jobs.” Suppose that someone purchases a competitor’s product rather than your product. Would you say that this exchange takes something away from you? If “every purchase sends a message,” then would you be able to receive accurate messages if people weren’t able to purchase competitors’ products?
22. Suppose that several people made an agreement to trade only with each other. They have a much simpler economy now; they are no longer able to express their own preferences as consumers, but they are able to avoid the disruptive effects of changes in other people’s preferences. Are they now better off?

*For further exploration of the issues raised in questions 21 and 22, view [Free Trade – Part 2: Creative Destruction](#).*

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***Free Trade***  
**Viewing Guide – Part 2: Creative Destruction**

1. Competition means businesses face the risk of \_\_\_\_\_.
2. Successful businesses are those that can adjust and \_\_\_\_\_ to changes.
3. Economists call the constant \_\_\_\_\_ of the economy “creative destruction.”
4. Today almost \_\_\_\_\_ people have access to cell phones.
5. Market forces are both creative and \_\_\_\_\_.
6. The economy is not a \_\_\_\_\_ game.
7. In the last 100 years, more \_\_\_\_\_ has been created than in the previous 100,000 years.
8. To buy a personal computer 25 years ago took the average person \_\_\_\_\_ hours of work. Now it takes \_\_\_\_\_ hours.
9. Free markets regularly turn \_\_\_\_\_ into consumer goods.
10. Poor U.S. households today are more likely to own a refrigerator, air-conditioner, and dishwasher than the \_\_\_\_\_ household was in 1970.



## *Free Trade*

### **Discussion Questions – Part 2: Creative Destruction, Page 1**

1. In a free market, what happens if a price is too high, a product doesn't work, or service is lousy?
2. Why do you think Mr. Cheung started making more things for the tourist trade?
3. What motivated telecom companies to bring cell phones to developing countries? Did they know about the difficulties faced by boat drivers, butchers, and egg farmers?
4. How does the rapid rollout of cell phone technology illustrate Adam Smith's principle of the "invisible hand"?
5. Who benefits from new technologies like cell phones? Who loses out?
6. Should government have banned cell phones in order to protect the jobs of people who made and repaired landline phones?
7. "Many would say that this [cell phone technology] revolution did more to give the average person power and to reduce poverty than any government program." Do you agree? Why/why not?
8. Can you think of other examples of businesses or industries that were once profitable but became unprofitable? What resources did these businesses use? (Think of as many different kinds of resources as you can.) What happened to those resources after the old businesses went under?
9. Should government try to block this process of economic renewal when it happens due to technological progress? What about when the process is due to competition?

## *Free Trade*

### **Discussion Questions – Part 2: Creative Destruction, Page 2**

10. If goods and services can be improved or made at lower cost, does it matter whether the cause is technology or trade?
11. Rather than trying to preserve obsolete jobs, what are some other ways we could help workers whose skills are no longer in demand?
12. Why does competition lead to inequality of outcome? Is that a bad thing?
13. What does it mean to say that the economy is not a zero-sum game? How does the pie constantly grow larger?
14. What examples are given in the video to show that the average person – not just the rich person – is better off now than 25 years ago? Can you think of other examples?
15. What are some of the ways in which poor households in the U.S. are better off now than the average household was in the 1970s?

Name: \_\_\_\_\_

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## *Free Trade* Quiz, Page 1

1. Milton Friedman won the
  - A) Nobel Prize in economics
  - B) Election for president of Sweden
  - C) Lottery
  - D) Academy Award
  
2. Hong Kong's only significant natural resource is its
  - A) Harbor
  - B) Plentiful land for agriculture
  - C) Forests
  - D) Diamond mines
  
3. Between 1950 and 2000, Hong Kong's GDP per capita
  - A) Increased 10%
  - B) Decreased 10%
  - C) Increased 100%
  - D) Increased 1000%
  
4. When economists use the term self-interest they are referring to
  - A) Self-centeredness; interest in one's self
  - B) Pursuit of a person's own goals, whatever those are
  - C) Forcing others to do what you want
  - D) Tricking others to get what you want
  
5. Adam Smith's concept of the "Invisible Hand" means that
  - A) Someone is secretly directing and controlling the economy
  - B) People are stealing things when no one is looking
  - C) In order to prosper, you must improve the lives of others
  - D) The market is an illusion
  
6. According to host Johan Norberg, the standard of living is highest where
  - A) People have the most freedom
  - B) Governments control the largest share of the economy
  - C) People don't trade with outsiders
  - D) No one is allowed to get rich

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## *Free Trade* **Quiz, Page 2**

7. Hong Kong thrived and prospered because it embraced
  - A) High tariffs to protect its industries from foreign competition
  - B) Government control of the economy
  - C) Free markets
  - D) Agricultural subsidies
  
8. In 1776, Adam Smith wrote
  - A) The Declaration of Independence
  - B) The Wealth of Nations
  - C) The Communist Manifesto
  - D) Hong Kong's constitution
  
9. Market forces are both creative and
  - A) Predictable
  - B) Destructive
  - C) Wasteful
  - D) Directed by government
  
10. In a free market system, which of the following options is not available to businesses?
  - A) Be competitive
  - B) Adjust and adapt to changes
  - C) Be creative
  - D) Lobby the government for restrictions on competitors

## *Free Trade*

# Enrichment Activities

*Essay:* Write an essay explaining how the following quotation from Adam Smith illustrates the principle of the invisible hand. “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

*Research Project:* Using the Index of Economic Freedom, <http://heritage.org/index/ranking>, explore the connection between economic freedom and prosperity, as measured by GDP per capita. First, click on several countries on the list to learn more detail about each, including GDP per capita. Now, create a graph. Label the horizontal axis Freedom Score, with a scale of 1-100. Label the vertical axis GDP per capita, with a scale of \$0 to \$100,000. Select ten countries and plot them on your graph by making a bar to represent each country. Use a different color for each. What does your graph show?

*Game:* Play [Win-Win, the izzit.org trading game](http://www.izzit.org). Learn about trade and economics by directly experiencing the fun of trading.

*Essay/Discussion/Debate:* Are free markets good? In the video, host Johan Norberg talks about “Tens of thousands of people who worked hard and supported their families and through no fault of their own lost their jobs and whose skills might not be in demand as the technology takes a new leap.”

Clearly, people whose jobs become obsolete aren't morally at fault. They have the same intentions as people who happen to work in rising industries. Should money be a reward for good intentions, or should it be a method of signaling to people what products are desired and what methods of production and uses of resources are most efficient? If it's the former, who would have to judge people's intentions, and how would that be done? In a market economy, who is the judge of whether a product is helpful or no longer helpful, and on what basis?

# *Free Trade*

## **Answer Key, Page 1**

### **Viewing Guide – Part 1: Markets**

1. Nobel Prize
2. Free markets
3. Resources
4. British
5. Hong Kong
6. GDP per capita
7. World
8. The Wealth of Nations
9. Voluntary association
10. Prices; invisible hand
11. Vote
12. Better
13. Pencil
14. Peace
15. Freedom

### **Viewing Guide – Part 2: Creative Destruction**

1. Failure
2. Adapt
3. Renewal
4. 4 billion
5. Destructive
6. Zero-sum
7. Wealth
8. 435; 25
9. Luxuries
10. Average

# *Free Trade*

## **Answer Key, Page 2**

### **Quiz**

1. A. The Nobel Prize in economics
2. A. Harbor
3. D. Increased 1000%
4. B. Pursuit of a person's own goals, whatever those are
5. C. In order to prosper, you must improve the lives of others
6. A. People have the most freedom
7. C. Free markets
8. B. The Wealth of Nations
9. B. Destructive
10. D. Lobby the government for restrictions on competitors

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