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# 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 self-interest.”*

*~Adam Smith*



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Video Page



# *The Invisible Hand*

## **Teacher's Guide**

*This Teacher's Guide includes the following:*

- Suggested Lesson Plan
- Preview Questions
- Key Terms
- Viewing Guide
- Discussion Questions
- Activity: Who Chooses
- Quiz
- Enrichment and Integration 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:*

- As a class, discuss the Preview Questions and Key Terms.
- Distribute copies of the Viewing Guide for students to use as a note-taking tool during the video.
- Play the video, pausing if needed to facilitate understanding and note-taking.
- Review and discuss answers to the Viewing Guide using Answer Key as a guide.
- Use Discussion Questions to spark class discussion, or assign these questions as homework.
- As a class or in small groups, complete the Who Chooses Activity.
- Replay the video as preparation for the Quiz.
- Administer and grade the Quiz using Answer Key as a guide.
- Optional: Assign one or more Enrichment Activities as homework.

# *The Invisible Hand*

## **Preview Questions**

*(These are meant to be read aloud by the teacher.)*

1. What is a market?
2. Why do people trade?
3. How do sellers decide how much to produce and what price to charge?
4. How do buyers decide what to buy, from whom, and at what price?

# *The Invisible Hand*

## **Key Terms and Definitions**

Apologist – a person who offers an argument in defense of something controversial

Benevolence – a desire to do good to others; charity, kindness, generosity

Commissar – an official of the Communist Party, especially in the former Soviet Union or present-day China, responsible for political education and organization

Competition – to strive to do something better than someone else

Competitor – an organization or country that is engaged in commercial or economic competition with others

Consequence – a result or effect of an action or condition

Consumer – a person who purchases goods and services for personal use

Demand – the amount of a particular good or service that buyers are willing and able to purchase at various prices; along with supply, one of the two key determinants of price

Diligence – careful and persistent work or effort

Economist – an expert in the study of the production, distribution, and consumption of goods & services

Enthralled – to captivate or charm

Entrepreneur – a decision maker who takes on the risk of trying new approaches and products and pursuing projects in the expectation of making a profit.

Forecasting – the use of historic data to determine the direction of future trends

Free will – the ability to act at one's own discretion, to make choices for yourself

In sync – working well together; in agreement

Institution – a custom or behavior pattern that is important to the social order. Examples include marriage, family, religion, schools, medicine, language and law.

Intervention – to become involved in something in order to have an influence on what happens

Inventory – a detailed, itemized list, report, or record of all goods and materials in stock

Invisible Hand – a term used by Adam Smith to describe people and systems working in harmony without anyone guiding them

Monopoly – a commodity controlled completely by one party (person, company, government, etc.)

Moral philosophy – the study of right and wrong; ethics

Mutual – held in common by two or more parties

Paradigm – a standard, perspective, or set of ideas; a way of looking at something

Peer – a person who is an equal in social standing, rank, age, etc.

Philosopher – a person who studies ideas about knowledge, truth, the nature and meaning of life, a person who seeks wisdom or enlightenment

Quota – proportional share, as of goods, assigned to a group or to each member of a group; an allotment or production assignment

Revolutionize – to change dramatically

Scone – a small unsweetened or lightly sweetened biscuit-like cake

Scottish Enlightenment – the period in 18th century Scotland characterized by an outpouring of intellectual and scientific accomplishments

Self-interest – one's personal interest or advantage, what's best for you

Supply – the total amount of a good or service available for purchase; along with demand, one of the two key determinants of price

Voluntary – done, given, or acting of one's own free will

# *The Invisible Hand*

## **The Scottish Enlightenment**

The Enlightenment was a movement in Europe and Britain which held that if we went about pursuing knowledge in the right way, we could gain vastly more of it and improve society in the process. Sir Francis Bacon and others developed the scientific method. Renee Descartes came up with an influential understanding of what the mind is and how it relates to the rest of reality. Scientific discoveries by Newton, Galileo and others lent support to the idea that we could learn more with new ways of thinking. The Enlightenment was partly an effort to understand society in new ways.

Some Enlightenment thinkers, including many in the Scottish Enlightenment, emphasized the limits of human reason in acquiring knowledge. Rather, they held that any knowledge we had came from our senses. Any theories that we formed had to be tested against observation.

Because reason is only a limited source for knowledge, the differences in people's mental abilities was relatively unimportant to these thinkers. We all have senses and common sense. Similarly, we all have what Adam Smith called moral sentiments, instincts telling us what is right and wrong. We do not need reason or any moral authority to tell us what is right and wrong, in this view; people of ordinary mental ability have these moral sentiments.

Similarly, we do not need to (and cannot), in the Scottish Enlightenment view, rely on people with great minds to use reason to create systems and direct people. Rather, we all have a little bit of reasoning ability, enough to get by in ordinary tasks and respond to our particular situations. Knowledge was, in this view, decentralized, spread among people who knew the particular things relevant to their own decisions. It was not centralized in great minds.

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

Date: \_\_\_\_\_

## ***The Invisible Hand*** **Viewing Guide**

1. \_\_\_\_\_ recorded his revolutionary ideas in two remarkable books: *The Theory of Moral Sentiments* and *The Wealth of Nations*.
2. One of Smith's most well-known concepts is the "\_\_\_\_\_."
3. The entire global \_\_\_\_\_ boils down to two people: a buyer and a seller.
4. Smith saw the market economy as extending the frontiers of \_\_\_\_\_ for everyone, including and especially the least among us.
5. The free market is \_\_\_\_\_ trade between different people, voluntary exchange.
6. "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 \_\_\_\_\_."
7. The \_\_\_\_\_ we're willing to pay send key signals.
8. This [fluctuations in demand, supply, and price] all happens without \_\_\_\_\_ intervention, without any trade commissar dictating quotas.
9. "He is in this... led by an invisible hand to promote an end, which was no part of his \_\_\_\_\_."
10. One of Smith's great contributions to humanity is his realization that things didn't have to be \_\_\_\_\_, in order to be orderly.
11. Complex systems can be generated by local behavior. They don't have to be—and actually can't be—created from the \_\_\_\_\_.
12. Smith thought that those people who believed they knew what was \_\_\_\_\_ for others were represented by a figure he called the "man of system."

13. Smith said the \_\_\_\_\_ makes the mistake of thinking that he can move people around the way a hand moves chess pieces around on a chess board.
14. [Adam Smith] saw how many businessmen were drawn to create monopolies and deceive the public interest for their own benefit and that is precisely why he argued for free \_\_\_\_\_ and free trade.
15. Smith thought that the government shouldn't be pro-business, it should be \_\_\_\_\_.
16. \_\_\_\_\_ has hundreds of thousands of small sellers around the world that are now doing more than half their business outside of their national borders.
17. One of the great things about \_\_\_\_\_ is that they act as an incredible price discovery mechanism.
18. As prices are on the rise—because buyers want a particular item—\_\_\_\_\_ stream into the market to satisfy that demand. And when demand drops, prices go down.
19. The free market isn't about robbing people or cheating them...it is about \_\_\_\_\_ with them.
20. A \_\_\_\_\_ is one of the most powerful forces on earth.



# *The Invisible Hand*

## Discussion Questions

Select the questions to use with your class, or assign different questions to different groups of students. Consider using technology and having students respond to one of these questions by making a short video of their answer to the question.

1. Who was Adam Smith?
2. In your own words, explain the concept of the Invisible Hand. Did Adam Smith think there actually was an Invisible Hand?
3. Why does reputation matter to a business or an eBay seller?
4. “Surprisingly, it works best when the seller has the interests of the buyer at heart.” What is “it”? Is it actually surprising that it works best under those conditions? What happens when sellers don’t consider buyers’ interests? What choices do buyers have?
5. “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.” What does this mean? Why do people offer goods and services for sale?
6. Compare the narrator’s statement in question 4 with the Adam Smith quote in question 5. How can both be true? What is benevolence? How is a seller offering goods and services that appeal to buyers different from the seller acting out of benevolence? What would happen if we all relied on others to give us what we wanted rather than offering goods and services for sale?
7. How can you serve other people while still having your own best interests at heart?
8. Why do people trade?
9. How do prices convey information to both buyers and sellers? Do the buyers and sellers think about, or care, what information the prices are conveying? Why do they make choices and take actions based on prices anyway?
10. Think about vehicles on a road. With rare exceptions, no one is directing traffic. Each individual vehicle is driven by someone who has a destination and plans of his or her own. People are pursuing their own interests, constrained only by the rules of the road. And yet traffic almost always proceeds in an orderly manner. What would happen if government tried to impose top-down control on car travel, telling people where to go, when to go, planning their routes, etc.? How do “rules of the road” differ from top-down direction?

11. What did Adam Smith mean by “the man of system”? Why do people often believe they know what is best for others? Why did Adam Smith think it was a mistake for someone to think they could move people around like pieces on a chessboard? Who in our society is in a position to force others to act according to what they think is best for them?
12. Who acts as a “Man of Systems” in your life? Explain.
13. What are the drawbacks of a top-down system? Besides the fact that people don’t like being ordered around, what else is wrong with this idea? Hint: Who has the best information about the abilities, resources, knowledge, and desires of each individual in the society?
14. “Smith thought the government shouldn’t be pro-business, it should be pro-market.” What is the difference, and why did Smith think this? What are some actions government takes that are pro-business? How do these policies affect competition? How do they affect producers? How do they affect consumers?
15. In our society, why do we generally trust people enough to conduct business with them, even though we realize they are most likely motivated not by benevolence, but by self-interest? What are some rules we can count on most people to follow, even though they are pursuing their self-interest?
16. eBay is featured in the film because its auction system is a great illustration of the give and take of buyers and sellers in the marketplace. What are some other kinds of purchases in which people typically negotiate a price? But in our society, we typically don’t haggle over most everyday purchases. Even on eBay, many of the transactions that take place are not auctions—“buy it now” indicates a price set by the seller. Nevertheless, the price system is functioning, balancing supply and demand. Are prices ever set in stone? Can sellers charge whatever price they want? What happens if a price is too high in the eyes of many buyers?
17. “Coordinating a global marketplace like this (eBay) takes one of the largest site operation centers in the world.” Does any of this massive infrastructure actually determine prices or bring about changes in supply or demand? Is there any difference between these online transactions and the exchanges that take place among millions of individual buyers and sellers in other marketplaces every day? Explain.
18. How did markets work before we had computers and the Internet?

# *The Invisible Hand*

## **Activity:**

### **Who chooses? Who benefits? Who pays? What's fair?**

[These four questions can be a useful tool for evaluating any policy or system. Posing the questions is a great way to stimulate critical thinking.]

As a class, or in small groups, discuss the following:

*(For each question, think broadly about all the possible people or groups of people who may be affected, and remember there may be non-monetary costs and benefits.)*

First, let's think about something you may not think of as having much to do with choice: order.

- What is order? What is it about Smith's bottom-up order that is orderly?
- What choices does language give us that we would not otherwise have? How might a "man of system" attempt to gain control of language? What if certain words are banned? What choices does this take away? What are the costs, and who pays them? Who benefits?
- How does the ability to buy things with money give us choices we would not otherwise have?
- How do prices determine the choices we have in a market economy? How do the choices people make determine prices? How does order emerge from all of these choices and prices? If a "man of system" set prices, how would that person affect the choices we have?
- What would it look like for a "man of system" to design energy policy? What would his goals be? How might they contradict the goals of the people involved? How would such a person determine the energy sources we use? How would this shape our choices? Who would benefit? Who would pay?
- How would a "man of system" design a health care system? What would his goals be? How might they contradict the goals of the people involved? Who chooses in such a system? Who benefits? Who pays?
- What would a "complex system" in healthcare look like if it was created by human action, but not human design? Who chooses in such a system? Who benefits? Who pays, and how?
- In a social order that arises as a result of human activity, but not of human design, what, if anything, is required to maintain that order? In a social order that is created by design, what is required to maintain that order? Which type of order allows for more freedom? Explain.

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

Date: \_\_\_\_\_

## *The Invisible Hand* Quiz

1. Adam Smith was one of the great thinkers of the \_\_\_\_\_.
  - A) Renaissance
  - B) French Enlightenment
  - C) Scottish Enlightenment
  - D) Romantic Era
2. In a free market, when more people decide they want a particular item \_\_\_\_\_.
  - A) prices go down, prompting an increase in quantity supplied
  - B) prices go up, prompting an increase in quantity supplied
  - C) prices go up , prompting a decrease in quantity supplied
  - D) prices don't change, resulting in a shortage
3. “ \_\_\_\_\_ act as an incredible price-discovery mechanism.”
  - A) Computers
  - B) Algorithms
  - C) Search engines
  - D) Markets
4. eBay is a great example of \_\_\_\_\_.
  - A) a free market
  - B) a highly-regulated market
  - C) a monopoly
  - D) a system in which sellers have the advantage over buyers
5. “It is not from the \_\_\_\_\_ of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”
  - A) beatitude
  - B) benediction
  - C) bravery
  - D) benevolence

6. The free market is about \_\_\_\_\_.
- A) cooperation between buyers and sellers
  - B) businesses taking advantage of people
  - C) competition between buyers and sellers
  - D) planning and direction by experts
7. The Invisible Hand concept explains \_\_\_\_\_.
- A) people and systems working together with no one directing them
  - B) businesses taking advantage of customers
  - C) helping those who are disadvantaged
  - D) economic planning and direction by experts
8. Adam Smith thought businessmen would try to \_\_\_\_\_.
- A) stifle competition
  - B) promote competition
  - C) push for free trade
  - D) promote imports
9. The prices we're willing to pay \_\_\_\_\_.
- A) are too low
  - B) are irrelevant
  - C) send key signals to producers
  - D) are unfair
10. Adam Smith thought that order \_\_\_\_\_.
- A) required government planning
  - B) would emerge as a consequence of the interactions of individuals
  - C) was very difficult to achieve in a democracy
  - D) was undesirable because it didn't allow for change

# *The Invisible Hand*

## **Enrichment and Integration Activities**

- I. Research: Scottish Enlightenment. What was the Enlightenment? When and where did it happen? How did Enlightenment thinking differ from pre-Enlightenment thinking? What were some of the most important Enlightenment ideas? Who were the important Scottish Enlightenment thinkers? How did Scottish Enlightenment thinkers differ from French Enlightenment thinkers? In what ways did the Enlightenment change the world? (Resource: *How the Scots Invented the Modern World* by Arthur Herman.) Present your research in a written report, or create a visual presentation. (Video, PowerPoint, etc.) Be sure to cite all of your sources.
  
- II. Activity: [Win-Win, the trading game](#). (Instructional video available from izzit.org) Play several rounds of the game, including some of the variations, following the instructions on the video and in the teacher's guide. Then, debrief with a class discussion. How does voluntary exchange make both parties better off? What drives people to want to trade? Why did some people choose not to trade? How are prices (in the game, non-monetary prices) determined? How do both competition and cooperation come into play? Is trade about tricking or cheating people? What would happen to people's well-being if trade were directed by a "man of system"? What if trade were banned?
  
- III. Essay: The Invisible Hand. Consider this longer excerpt of Adam Smith's reference to the Invisible Hand:

"Every individual who employs his capital in the support of domestic industry, necessarily endeavours so to direct that industry that its produce may be of the greatest possible value. The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry.... He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it...and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention."

What causes an investor, out of self-interest, to try to get the greatest possible value out of available resources? What would happen to an investor who used those same resources to produce something of lesser value? In a free market, who determines the value of products? How do free markets and prices ensure that resources are not wasted?

- IV. Technology: eBay auction. As a class, come up with a plan for using eBay to sell donated items to raise funds for a class field trip or a charity. Collect donated items; then use eBay to research the potential value of each item. Decide which items you think might attract eBay buyers, and determine your minimum bid for each item. Set up an eBay account, list the items for sale, and use the site's features to track your items. For those items that don't sell, consider relisting the item with a lower minimum, or donating the item elsewhere.
- V. Research: Research: Adam Smith. Find out more about Adam Smith and his ideas. Be sure to read some actual excerpts from *The Wealth of Nations*. Why is Smith considered to be the founder of modern economics? Consider his notion of how people pursuing their self-interest leads to the most beneficial outcomes for society. How did this and his other ideas challenge the conventional wisdom at the time? How have his ideas continued to influence economic thinking up through the present day? Present your findings in a written or oral report, or create a presentation. (Video, PowerPoint, etc.) Be sure to cite your sources.

# *The Invisible Hand*

## **Viewing Guide Answer Key**

1. Adam Smith
2. Invisible Hand
3. economy
4. opportunity
5. voluntary
6. interest
7. prices
8. government
9. intention
10. planned
11. top down
12. best
13. man of system
14. competition
15. pro-market
16. eBay
17. marketplaces
18. sellers
19. cooperating
20. free market

## **Quiz Answer Key**

1. C) Scottish Enlightenment
2. B) prices go up, prompting an increase in quantity supplied
3. D) Markets
4. A) a free market
5. D) benevolence
6. A) cooperation between buyers and sellers
7. A) people and systems working together with no one directing them
8. A) stifle competition
9. C) send key signals to producers
10. B) would emerge as a consequence of the interactions of individuals



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