



POWELL CENTER FOR
ECONOMIC LITERACY

Lesson Plan

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Money, Income, and Wealth: Wherein Lies the Difference

Time Required

2 class periods

Grade Level and Subject

High School, Social Studies

Keystone Principles

Principle #5 – Incentives produce “predictable” responses.

Voluntary National Content Standards in Economics

Standard #4 – [Role of Incentives](#)

Standard #11 – [Role of Money](#)

Standard #13 – [Role of Resources in Determining Income](#)

Economic Concepts

Income – *Payment received for goods or services sold. Also, it is a flow of funds from production or productive assets.*

Money – *Any generally accepted medium of exchange to buy goods and services.*

Wealth – *All goods and resources having value in terms of exchange or use; a great amount; a profusion.*

Overview

Ask the average high school student what he or she expects after college and many will reply, "I expect to earn a lot of money," or "I plan to have tons of money." An economist would quickly point out that the students mean to say something very different. In the first case, the speaker plans to "earn a large income," while in the second, he or she plans "to have much wealth." The use of the term *money* as a synonym for *income* and *wealth* leads to faulty economic reasoning and confusion. In this lesson, students learn to appreciate how specialized terms lead to greater clarity and more valid analytical evaluations of economic theory.

Objectives

- Students formulate explanations for why money, income, and wealth are different but related concepts.
- Students review the functions of money and the concept of liquidity.
- Students use computer technology to research and identify the differences between income and wealth.
- Students work through data on money, income, and wealth.
- Students evaluate a series of statements as they relate to money, income, and wealth.
- Students discuss how data on money, income, and wealth can give very different views of individuals' financial well-being.
- Students discuss how imprecise use of terminology can confuse public policymaking.

Materials and Handouts

- Computers with Internet access
- [Handout 1](#) **Wealth and Income**
- [Handout 2](#) **Numeric Examples of Money, Income, and Wealth**

Teaching Activity

Arrange for students to spend one day in the computer lab. While working in pairs, instruct students to access the Encarta Web site and search and read the entry on *wealth*. Ask students to complete [Handout 1](#), **Wealth and Income**. Ask students to read aloud their responses to question 9. Stress the importance of *wealth* as a stock concept and *income* as a flow concept. Ask students to speculate what other concepts they know are stock concepts (capital stock) or flow concepts (investment).

Continue the discussion by asking students to recall the functions of money: money serves as a medium of exchange, a unit of accounting, and a store of wealth. Point out that as long as an asset serves as a medium of exchange, it automatically serves also as a form of money. Have students identify certain forms of wealth that can be used as money. They will mention such assets as paper currency, bonds, stocks, and checks. Here have students recall the concept of liquidity. Assets are really differentiated in potential payment for debt by their liquidity. In order of most liquid to least liquid, you have: coin, currency, demand deposits, bonds, stocks, real estate, etc.

Through the money discussion, students will recognize the differences among the three concepts. Money refers to the set of assets commonly used to buy goods and services. It is the portion of one's wealth that is directly spendable or exchangeable for goods and services. Income is most commonly received in the form of money.

In the next class period, ask students to work in pairs to complete [Handout 2](#), **Numeric Examples of Money, Income, and Wealth**. Have students work on the assignment for one-third of the class period. Select five students from different groups to go to the board to present their findings. Instruct the first student to fill in the table for Jake and the second student to fill in the table for Hannah. Ask the third student to discuss the answers to questions 1 through 5, the fourth to discuss possible answers to 6, and the fifth to discuss possible answers to 7.

Finally, discuss as a class what students have learned from the lesson.