

**COMMENTS ON RELEASE OF  
*THE NATION'S REPORT CARD™: ECONOMICS 2006***

**BRUCE L. DAMASIO**

**President of the Global Association of Teachers of Economics (GATE)  
High School Economics and Social Studies Teacher, Towson, Md.**

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The NAEP economics assessment, whose results are being released today, gives us important news, but its findings are somewhat ambivalent.

According to the standards set by the National Assessment Governing Board, eight out of 10 high school seniors have reached a *Basic* level of economic knowledge and understanding. Four out of 10 have reached a level deemed *Proficient*. Only three out of 100 have reached the *Advanced* level. But what truly is proficiency? What is advanced?

How high a standard should we expect? And what sort of action should come from it?

Economics, unlike all the other subjects tested by NAEP, deals mainly with the present and the future—with the choices people make and their consequences.

And unlike history, mathematics, or science, economics is learned both in and out of school. It is applied both in and out of school. Economics is an academic discipline, but it is much more than just an academic discipline. It is education in real time that moves quickly from the classroom to the community. When we talk about economics, we are dealing with real life—with concepts and decisions that have an immediate impact on our lives.

Matt takes his car to the gas station, and finds there's not enough gas, or the price has gone up sharply, or the price has gone down. What's going on? Matt should have some idea, we all should have some idea what really is happening and why.

I think this new NAEP assessment shows us that many of our 12<sup>th</sup>-grade students have a pretty good grasp of the logic of economics—of the trade-offs of supply and demand. But when we look at the actual questions they can answer and the ones most of them get wrong, we see that many students are pretty shaky on the terminology of economics and on the actual ways that government and financial institutions work.

For example, one question sets up a scenario: "Recently, the hourly wage that parents are willing to pay babysitters increased dramatically."

Then it asks: "Higher pay will most likely cause which changes in how babysitters divide their out-of-school time?"

And 80 percent answered correctly that the time spent babysitting would likely go up, and time spent on other activities would decrease.

But when a question requires some knowledge of the basic terminology of economics, the percentage of students who answer correctly goes down substantially. For instance, there is a question that reads, “Which of the following is an example of capital for a firm that produces wind-powered electricity?”

Fifty-three percent chose the correct answer, “The windmill that produces the electrical power.” Of the remaining 47 percent, 1 percent omitted the question, and 46 percent picked one of the three wrong choices: the workers who build and repair the windmill, the wind that powers it, and the businessperson who established the firm. About the same proportion made each mistake, confusing labor, energy, and entrepreneurship with capital equipment.

There’s one released question from the assessment that may be of special interest to Mr. Stern, and the low percentage of students who answered it correctly may seem especially disappointing.

The question asks: “Which of the following is a policy tool of the Federal Reserve?”

- A) Raising or lowering income taxes
- B) Increasing or decreasing unemployment benefits
- C) Buying or selling government securities
- D) Increasing or decreasing government spending

Only 21 percent chose the correct answer that the Fed buys and sells government securities. Quite a few more—37 percent—chose option D, increasing or decreasing government spending. This means that students haven’t learned that Congress and the President determine federal spending—either in economics, civics, U.S. history, or any other course.

Another substantial group—31 percent—answered that the Fed can raise or lower income taxes. That means they don’t know how the Fed works at all or what its role is in controlling the money supply and inflation. Obviously, this sort of knowledge about institutions—and it is important knowledge to have to understand how government impacts the economy—is not part of most students’ economic education.

Besides its economic questions, NAEP also asked students what economic courses they took in high school, and ties that to achievement on the test. The results here are disappointing because regardless of what courses the students said they took in economics, there was only a slight difference in achievement.

Those who reported taking Advanced Placement, the International Baccalaureate, or an honors course in economics did have the highest average score, 153, but this was only 2 points higher than those with general economics or no economics courses at all and the difference is not statistically significant. One category of course-takers scoring below the rest was the 11 percent of seniors who took consumer economics or business. Their average score was 145—four points below those who took economics combined with something else. However this score difference was not significant.

All of these data are based on the titles of the courses that students said they took. NAEP has no way of knowing the rigor of these courses, or what students were actually taught or expected to learn. Last winter the NAEP high school transcript study found the same problem throughout the high school curriculum—an increase in courses with names that look impressive but with student achievement on NAEP that doesn't match.

There may well be a rigor gap in economics courses too, because no matter how you slice it, these NAEP data seem to show that formal coursework in the subject has had little impact on learning the material in the NAEP economics exam.

Actually, I see the new NAEP economics assessment as a beginning with a fairly low ceiling that we can try to raise somewhat when it is given again in 2012. But the beginning is important because just having this NAEP assessment shows that economics is valued and should be strengthened in our schools.

As we move forward from this press conference, there is cause for optimism but cause for concern as well. It is clear that most students “know” some economics but how deeply and how well is not clear. Certainly, there is no evidence of higher rates of saving or more astute spending by teenage consumers.

Obviously, there should not only be more economics in the high school curriculum but stronger economics as well, so that students understand the economic decision-making that confronts them daily. In some ways, economics is everywhere in their lives, but nowhere. It is up to us to remind our educators and our nation that helping students become more economically aware and more economically literate should lead to better decisions.

Economics is the study of consequences of the choices people make. I hope the results of this National Assessment of economics will be a benchmark upon which we all can build.

Thank you for your time.