Two Thumbs Up!

Winning Essays from the Federal Reserve Bank of Cleveland's 2004 Essay Contest:

Economics Goes to the Movies

Ryan McVay/Getty Images

The Federal Reserve Bank of Boston is not the only Reserve Bank to use entertainment as a hook for teaching economics.

In 2004, the Federal Reserve Bank of Cleveland's annual essay contest gave high school juniors and seniors the opportunity to choose their favorite movie and explain the economic concepts behind the scenes. We were so struck by the quality of the essays that we asked permission to share the first and second place winners with our readers. Here they are. Enjoy!

And if you'd like to read some of the other entries, which are impressive in their own right, here's the link: http://www.clevelandfed.org/Education/essay04/winessay04.cfm

Congratulations to all the contestants, their families, and their teachers. And thank you to our colleagues at the Cleveland Fed, Jennifer Ransom, education coordinator, and Lori Boehm, graphic designer.

First Place

Money and Banking in the Movie *Mary Poppins*

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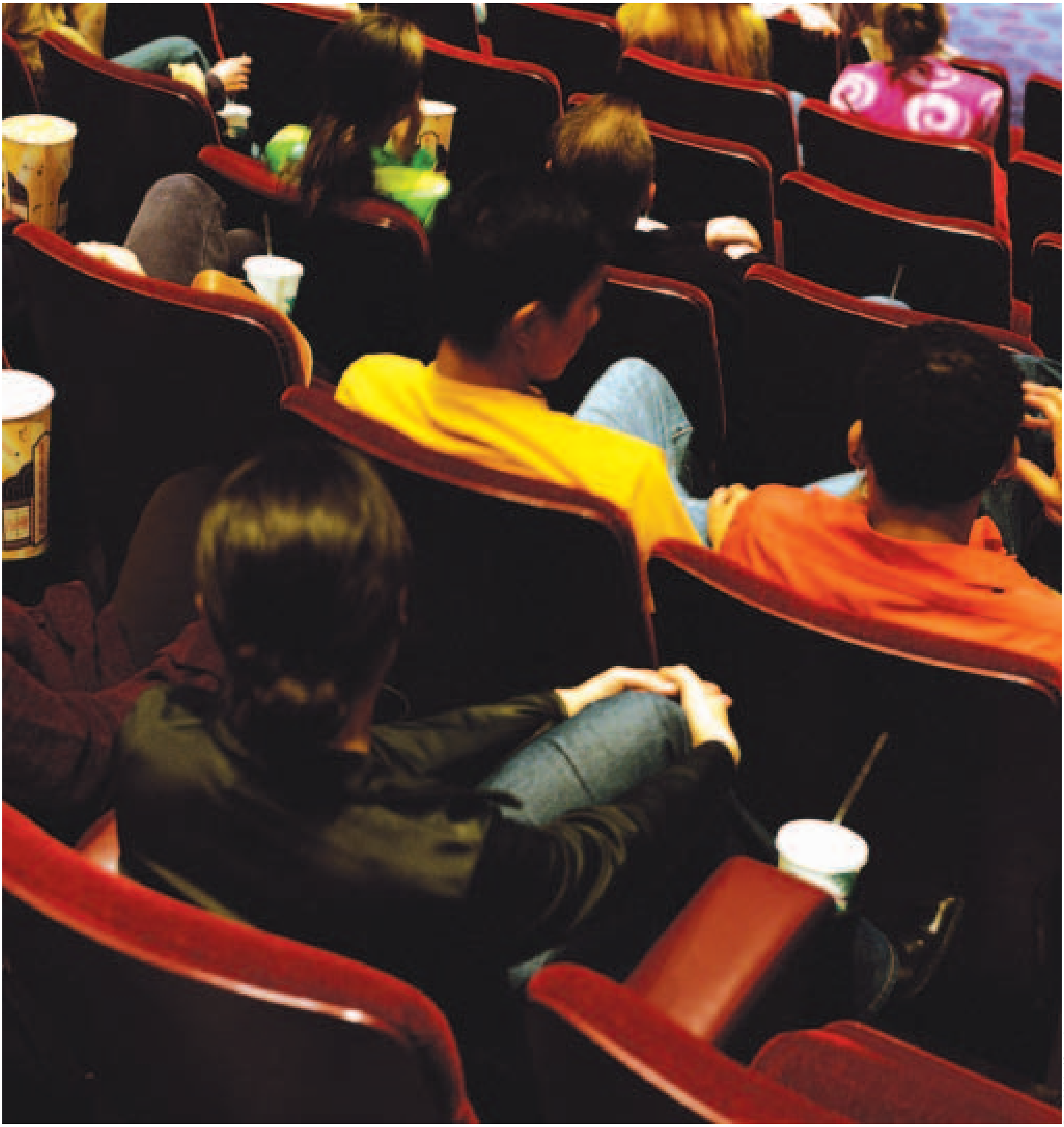
Mary Poppins is a Disney classic movie, based on a book by P.L. Travers, and directed by Robert Stevenson. The story features the well-to-do Banks family in London in the year 1910. The Banks children, Jane and Michael need a nanny and Mary Poppins appears magically. From tea parties on the ceiling to popping into pavement pictures, Jane and Michael accompany Mary Poppins and her friend Bert, the chimney sweep, on a series of magical adventures.

When George Banks, the conservative father and banker, asserts that the children should learn about the real world instead of playing games of fantasy, Mary Poppins suggests that the children visit the bank with their father. On the way, Michael wants to use his 'tuppence' (two-pence) to feed the birds. His father refuses, pronouncing it a waste of money and promises to share his plans for the tuppence at the bank. At the bank, Jane and Michael are introduced to the chairman, the senior Mr. Dawes. The children's visit to the bank together takes up less than ten minutes in the movie and yet in those few minutes, the movie introduces the audience to fundamental economic concepts. The time value of money and compound interest in financial economics (Hirschey, 727) are introduced in the form of a song sung by the elder Mr. Dawes, "a giant in the world of finance." Accompanied by a chorus of other bankers, Mr. Dawes tries to convince Michael, with a song, the wisdom of saving the tuppence in a bank account and the magic of compounding as the principal multiplies over time. As Mr. Dawes explains, Michael Banks's present value of one tuppence can grow into a future value of a "generous amount" through semiannual compounding, if Michael deposits the tuppence in the bank. Mr. Dawes then goes on to explain the relationship between savings and investment when he tells Michael how the savings "prudently invested by the bank" will fund investments such as "railways through Africa, self-advertising canals and plantations of ripening tea."

Michael, refusing to be swayed, demands his tuppence back, and gets into a struggle with Mr. Dawes. When the other customers at the bank hear Michael yelling "give me back my money," they think the bank is insolvent, and the ensuing panic starts a run on the bank as all the depositors demand their money back immediately. Later that day, George Banks loses his job for having caused a bank run. For Michael, the opportunity cost of the tuppence saved is the pleasure of feeding the birds which is the "next best alternative foregone" (McConnell & Brue, 27). Michael makes a choice between consumption now and consumption in the future (inter-temporal consumption) when he chooses not to save his tuppence. The opportunity cost of the future consumption is present consumption foregone. This episode also illustrates the role of subjective preference and choice and how it varies across individuals. Michael prefers to feed the birds today rather than choose future "opportunities" of savings and investment. Evidently, Michael has a rather strong preference for the present over future consumption, in contrast to his father and the other bankers who express a preference for future rather than current consumption.

The run on the bank is the most succinct economic concept that the movie depicts. A bank panic or bank run is a situation in which all or most depositors appear at once to demand those deposits in cash (McConnell & Brue, 269). Banks only keeps a small portion of their deposits as reserves and lend or "wisely invest" the remaining as the bankers chant in unison to Michael. This is the system of fractional reserve (McConnell & Brue 257) which helps banks create money by loaning out the excess reserves as credit. This is what makes the banking system vulnerable to bank runs. Individually, as customers lose confidence in a bank, they are acting rationally when they demand their deposits back. But in the process, there is a run on the bank causing the bank to fail and a loss for all its customers (Kaufman). If the bank is indeed insolvent, then this could affect other banks and financial institutions which transact with the bank. This is called financial contagion (Kaufman). It is to ensure against such loss of faith in the banking system that central banks such as the Federal Reserve have been charged with being the lenders of last resort and that deposits insurance has been introduced (Parkin, 404). Such interventions make the possibility of bank runs remote. However, financial contagion is still observed in security markets as investors lose faith in financial transactions. Even today, the rule in financial markets is to halt all trading when there is panic selling. This is depicted in the movie, where the bank panic is contained by closing the doors and calling a halt to all transactions. In the movie *Mary Poppins*, since the bank is not financially insolvent and the panic is based on inaccurate information, the bank run is contained, and the story ends on a happy note with Mr. Banks being named one of the directors.

In the end, it is Bert the chimney sweep, who states the moral of the story. He reminds Mr. Banks how short childhood is and how easy it is to miss the precious opportunity of fatherhood. There is yet another classic example of opportunity cost, as Bert drives home the fact that the opportunity cost of Mr. Banks' glowing career at the bank is time foregone with his children. As Bert says to Mr. Banks, "you've got to grind, grind, grind at the grindstone, while childhood slips like sand through a sieve. And soon they've up and grown, . . . and it's too late for you to give." Bert's simple words strike a chord, and the story ends with a reformed Mr. Banks returning to his family, anxious to mend his relationship with his children.



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Second Place

The Opportunity Costs of *Family Man*

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I push the videotape in and it clicks with a thud and the arrows turn green as the movie begins to play. I settle back on the sofa, letting my mind fade away from the activity of the screen. In the back of my mind I think about the economics chapter I read that morning and about the essay I will have to write later this night. My mind spins as I try to sort out the concept of opportunity costs in my head. I turn to my dad as the previews drone.

"What *do* opportunity costs have to do with the real value of life?" I say, frowning. "Can't someone make a decision based on happiness anymore, without having to think of exactly what the cost of their next best alternative would be? I know I don't look at my choices in terms of how much more money I will earn or lose if I go one place over another." I pause for a moment to think. "Well, at least not most of the time." My dad turns away from the TV screen.

"Hannah, you can weigh your opportunity costs in different ways. Opportunity costs are basically the costs and benefits of a certain action, as compared to your other choices. For instance, when you decide if you want to watch a movie at home or go to a theater, you might think of the extra cost of the theater, and then the extra benefit of the larger screen and perhaps the friends who you might see the movie with. Then, you weigh the options and subtract from your first choice the value of the second choice, so from seeing the movie at home you would subtract the loss of companions and high quality. You might not do this consciously, but it is a good practice to get yourself into. Now quiet, here comes the movie."

A hush descends on the room as we watch the opening credits. "*Family Man*," I mutter aloud as I read the title of the movie. "It doesn't sound very exciting," I tell my dad. I'm never very happy with my father's choices in movies.

"Shhh, just watch it!" my dad replies tersely. I take a handful of popcorn and watch as the plot begins to unfold. I soon see the movie is not so boring. The main character, Jack Campbell, has the ideal capitalist life. He is president of a large company, drives a Ferrari, is popular and daring, and altogether living the American dream.

"Where is the family? I thought this was about a family?" I whisper to my dad. "The family part is coming, be patient and SILENT!" my dad responds. Sure enough, in a few minutes, Jack Campbell's life takes a strange turn. He is given a magical "glimpse" into what his life would have been like had he married his college girlfriend instead of traveling to England to further his career. A glimmer of light shines in my head like a bright piece of gold. This isn't strictly a business transaction, but it is still opportunity costs at work. Jack's first choice was that the option of going to England was worth more than the cost of possibly losing his lovely girlfriend. I focus back into the present story. His life in this "glimpse" appears completely worthless. He lives in a small house in suburban New Jersey, works as a tire salesman, has two kids to hassle with, and plays on a bowling team for fun. Jack Campbell, of course, does not like this kind of life.

"Well, given this choice, certainly the better opportunity is his former life!" I whisper noisily to my dad.

Suddenly, however, a change comes along. Jack realizes that this life has its challenges, but also amazing rewards. He finds himself suddenly doing things he can respect himself for. He cares about other people, and he falls in love with his children and all over again with his wife. He realizes that suddenly his life has something that GDP cannot measure. He has happiness.

"Oh, so I get it," I announce happily. "He is weighing his opportunity costs again in this choice! He knows his other life would give him money, but he chooses the companionship and joy of being a family man instead, because the value of his family has risen above the value of his job as a rich business man!"

"Brilliant," my dad replies, turning the volume on the TV up a few notches. "Now have some more popcorn."

The popcorn is already gone, I notice. The supply has diminished due to the demands of my appetite. Instead of popcorn, I curl up hugging an afghan with a huge smile on my face. Suddenly economics doesn't seem so distant or even so harsh. Opportunity costs become something that can be used for good, and not just for cold money-hungry misers. As the credits scroll over the closing shot, my mind runs back to the economics chapter with an amazing kind of economical peace.