



Friction Costs: Lesson Plan

Topic	
The friction cost is the total cost of a transaction, including both the direct and indirect costs, as well as non-monetary costs like time and effort. Essentially, the friction cost is the entire cost of a good or service.	
Possible subjects/classes	Time needed
Economics, Financial Literacy, Government, Politics	30-45 minutes
Video link:	
https://academy4sc.org/video/friction-costs-shipping-costs-how-much/	
Objective: <i>What will students know/be able to do at the end of class?</i>	
Students will be able to... <ul style="list-style-type: none">• Define friction, direct costs, and indirect costs.• Analyze how friction costs impact consumer behavior.• Explain the role of friction costs in large purchases and government spending.	
Key Concepts & Vocabulary	
Opportunity cost	
Materials Needed	
Worksheet	
Before you watch	
Poll the class: Ask the class what they think the average car costs to buy. The answer for a new car in the United States is \$20,000. However, that is not the cost of owning a car. Ask the students to list the costs related to owning a car like gas, insurance, repairs, and licensing fees. The average “cost to own” for a car is around \$7,000 a year. Tell students to keep the distinction between “cost” and “cost to own” in mind as they continue.	

While you watch

1. What are the two components of friction costs?
2. List two examples of friction costs.
3. Why do companies hide the true friction cost from consumers?

After you watch/discussion questions

1. Identify an example of a time that you have experienced a friction cost. Did you recognize the full price or just the direct cost?
2. What would the positive and negative effects be of stating the friction price as opposed to the direct price in shopping scenarios?
3. Why is it especially important for lawmakers to understand friction costs?

Activity Ideas

- **Worksheet:** Students should work in partners or small groups to complete the questions on the Worksheet. After they have completed the questions, review the answers as a class.
- **Cost Appraisal:** Split the students into small groups. Assign each of the groups a purchase for which they will list all of the costs that make up the friction cost. The purchases should be complicated enough to allow the students to brainstorm large lists. Possible examples could include a college course, a dog, or a motorcycle. Ask the students to include direct, indirect, and opportunity costs in their lists.

Sources/places to learn more

1. Driesen, Daniel M, and Shubha Ghosh. "The Functions of Transaction Costs: Rethinking Transaction Cost Minimization in a World of Friction." *Arizona Law Review*, vol. 47, no. 1, 2005.
<https://heinonline.org/HOL/Page?handle=hein.journals/arz47&id=73&collection=journals&index=>
2. Spielman, Ethan. "Direct Costs vs. Indirect Costs: What Are They, and Why." *Business News Daily*, 20 Apr. 2018.
<https://www.businessnewsdaily.com/5498-direct-costs-indirect-costs.html>
3. "Transaction Costs - Definition, Types, and Transaction Cost Economics." *Corporate Finance Institute*, CFI, 18 Nov. 2019.
<https://corporatefinanceinstitute.com/resources/knowledge/economics/transaction-costs/>