Reading the Economy

Use economic measures to explain what changes in a town.

SS24.E.8 "Explain how economic measurements, including the Consumer Price Index (CPI), the Gross Domestic Product (GDP), inflation rates, labor force participation rate, and unemployment figures..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two links between spending or production decisions and their effects on income, jobs, or prices. Circle each measurement that could help you check those effects.

When the Car Factory Slows

1. Imagine a town where a car factory cuts output as families delay buying cars. Household spending and business production fall, reducing workers' income and jobs. Government purchases can support demand, though added demand may increase prices if production cannot keep up. Real GDP tracks inflation-adjusted output; CPI tracks changes in prices of a consumer basket.

ANNUAL SNAPSHOTS FOR A HYPOTHETICAL COUNTRY

Year	Real GDP ($ trillions)	CPI	Unemployment (%)	Participation (%)
A	20.0	100	4	63
B	19.6	104	8	61
C	20.2	110	5	62

2. From A to B, output shrinks, unemployment rises, and participation falls. The unemployment rate divides unemployed people by the labor force, which includes employed and unemployed people. Participation divides that labor force by the civilian noninstitutional population age 16 or older. Rising CPI signals inflation; its increase is faster from B to C.

3. A peak precedes contraction; a trough marks its end, before expansion. Cyclical unemployment rises when demand falls, as at the factory. Frictional unemployment occurs during a job search; structural unemployment follows a mismatch between workers' skills and available jobs. Job loss strains household budgets and tax revenues, while inflation erodes purchasing power, especially when wages lag prices.

2 ANSWER WITH EVIDENCE

Use the passage

1. From A to B, what do real GDP and unemployment suggest about economic health? Explain one way the factory slowdown could contribute to both changes.

2. Calculate the inflation rate from A to B and from B to C using CPI. Did inflation accelerate or slow?

3. Which type of unemployment best fits a factory worker laid off because car sales fall? How does its cause differ from structural and frictional unemployment?

4. Why does the drop in labor force participation from A to B add information beyond the rise in the unemployment rate?

3 YOUR TURN

Your own words

Invent an economic event other than the factory slowdown. In four sentences, explain how one household, business, or government decision could change income, employment, and prices, name two measures that could test your explanation, and give one specific effect on a person.

ANSWER KEY

Reading the Economy

GRADE 12 · SS24.E.8

PART 1 · READ AND MARK

Underline two links between spending or production decisions and their effects on income, jobs, or prices. Circle each measurement that could help you check those effects. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	From A to B, what do real GDP and unemployment suggest about economic health? Explain one way the factory slowdown could contribute to both changes.	**Real GDP falls from $20.0 trillion to $19.6 trillion while unemployment rises from 4% to 8%, suggesting a contraction. Lower demand for cars can lead the factory to produce less and cut jobs.**
2	Calculate the inflation rate from A to B and from B to C using CPI. Did inflation accelerate or slow?	**Inflation is (104 − 100) ÷ 100 = 4% from A to B and (110 − 104) ÷ 104 ≈ 5.8% from B to C. Inflation accelerated.**
3	Which type of unemployment best fits a factory worker laid off because car sales fall? How does its cause differ from structural and frictional unemployment?	**This is cyclical unemployment, caused by falling demand. Structural unemployment results from a skills mismatch; frictional unemployment occurs while someone searches for a job.**
4	Why does the drop in labor force participation from A to B add information beyond the rise in the unemployment rate?	**Participation falls from 63% to 61%, meaning a smaller share of the civilian noninstitutional population age 16 or older is in the labor force. The unemployment rate describes only the share of that labor force without work.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

A city government hires crews to repair bridges, so the workers earn wages and spend more at nearby shops. Shops may add staff as sales rise, while prices could climb if demand grows faster than supplies. Rising real GDP and falling unemployment would support the prediction that output and jobs increased. A restaurant worker might gain more shifts but find that higher grocery prices absorb part of the extra income.

Accept well-supported interpretations of the hypothetical data. For the open task, accept different plausible price effects if the response explains why prices might change.