Two Economic Pressures

How job losses and rising prices reach beyond one household

SS24.E.8d "Explain how unemployment and inflation affect individuals and nations, citing specific examples."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one effect of unemployment on a person and one on the nation. Circle one effect of inflation on a person and one on the nation, then number a cause-and-effect chain that connects the two pressures.

When Paychecks and Prices Change

1. In April 2020, as COVID-19 shut down many businesses, the U.S. unemployment rate reached 14.7 percent. Imagine a server whose restaurant closes and who cannot find another job. Even with temporary assistance, that worker may postpone rent payments and stop buying from nearby shops. This loss of income is personal, but when millions of workers cut spending, businesses across the nation sell less and may lay off more staff. Government tax revenue can fall while demand for unemployment benefits rises. A jobless rate therefore measures more than people without paychecks: it can signal a wider economic slowdown.

2. In June 2022, the U.S. consumer price index was 9.1 percent higher than a year earlier. This inflation did not mean every price rose equally, but it did reduce what a dollar could buy on average. A retiree receiving a pension that stays at the same dollar amount might switch to cheaper groceries after food and utility bills climb. Across the nation, households with less purchasing power may buy fewer goods, while businesses face uncertain costs and prices. To restrain inflation, the Federal Reserve raised interest rates in 2022, making many loans more expensive and slowing some borrowing.

3. These pressures can overlap. Suppose a bakery sees rising ingredient prices just as customers cut back. Its owner may raise prices, accept lower profits, or reduce workers' hours. A baker with fewer paid hours then struggles to cover bills that are also rising. If this pattern spreads nationwide, unemployment can increase while inflation still strains household budgets. Policymakers face a difficult choice: higher interest rates may ease inflation by slowing spending, but slower spending can also reduce hiring. More assistance can protect people who lose income, although it requires public funds. The effects depend on who loses work and whose costs rise fastest.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could the server's job loss affect both the server and the national economy?

2. How could the inflation described in the passage affect both the retiree and businesses across the nation?

3. Explain how rising ingredient prices at the bakery could contribute to unemployment if similar changes occur nationwide.

4. Why might raising interest rates to fight inflation make unemployment worse for some workers?

3 YOUR TURN

Your own words

Imagine a small island nation where its largest shipping company closes and overall consumer prices rise 12 percent while wages rise 3 percent. In one paragraph, explain how each shock affects a person and the nation, using a concrete example for each, and identify one policy tradeoff.

ANSWER KEY

Two Economic Pressures

GRADE 12 · SS24.E.8d

PART 1 · READ AND MARK

Underline one effect of unemployment on a person and one on the nation. Circle one effect of inflation on a person and one on the nation, then number a cause-and-effect chain that connects the two pressures. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could the server's job loss affect both the server and the national economy?	**The server may postpone rent and spend less at nearby shops. If many workers do the same, businesses nationwide may sell less and lay off staff, while tax revenue falls.**
2	How could the inflation described in the passage affect both the retiree and businesses across the nation?	**The retiree's unchanged pension buys less, so the retiree might choose cheaper groceries. Businesses may face uncertain costs and prices and sell less as households cut purchases.**
3	Explain how rising ingredient prices at the bakery could contribute to unemployment if similar changes occur nationwide.	**Facing higher ingredient costs and fewer customers, the bakery might cut workers' hours. If businesses across the nation respond similarly, unemployment can rise.**
4	Why might raising interest rates to fight inflation make unemployment worse for some workers?	**Higher interest rates make borrowing more expensive and can slow spending. If businesses then sell less or delay expansion, they may hire fewer workers.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

When the island's largest shipping company closes, a dockworker may lose a paycheck and delay paying rent. With many workers out of jobs, national consumer spending and tax revenue may fall. If overall prices rise 12 percent while wages rise only 3 percent, a teacher may buy fewer groceries with each paycheck, and weaker purchasing power can reduce sales across the nation. Raising interest rates could slow inflation by limiting borrowing and spending, but it could also make it harder for other employers to expand and hire displaced workers.

Accept other plausible cause-and-effect explanations grounded in the passage. For Part 3, look for distinct effects of job loss and inflation on individuals and the nation, concrete examples, and a policy benefit paired with a possible cost.