Three Signals, One Economy

Trace how production, jobs, and prices affect one another.

GE.5.7 "Investigate the effect of Gross Domestic Product (GDP), unemployment, and inflation on economies."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one cause-and-effect link for each of real GDP, unemployment, and inflation. Write G, U, or I beside each link to show which measure it helps explain.

When Lydon's Economy Changed

1. At the start of the year, people in the fictional country of Lydon were buying more bikes and restaurant meals. Factories added shifts, and real gross domestic product (GDP), the value of goods and services produced after adjusting for price changes, grew 3 percent. The unemployment rate, the share of the labor force looking for work but unable to find it, fell from 6 percent to 4 percent. With more paychecks, households could spend more. Yet crowded factories could not quickly make everything customers wanted. Prices across many goods and services rose faster, lifting annual inflation from 2 percent to 4 percent.

2. Then a fuel shortage raised the cost of shipping parts and food. Many businesses increased prices even as they sold fewer items. Inflation reached 7 percent, while real GDP shrank 2 percent over the next year. A bike shop cut hours, and a delivery firm laid off drivers; unemployment climbed to 8 percent. Families with lost wages bought fewer extras, weakening sales at other stores. Even workers who kept their jobs found that their paychecks bought less if wages did not rise as fast as prices. High inflation did not mean that production or employment was growing.

3. Lydon's leaders faced a choice. The central bank could raise interest rates to slow borrowing and spending, which might ease inflation but could also further reduce sales and hiring. The government could fund short-term repair work and hire workers, supporting jobs and production, but extra spending could add to price pressure if supplies stayed scarce. Officials chose targeted help for unemployed families and investments to improve fuel delivery while the central bank raised rates gradually. They watched real GDP, unemployment, and inflation together: a policy that improved one measure could worsen another, at least for a time.

2 ANSWER WITH EVIDENCE

Use the passage

1. In Lydon's first year, how were growing real GDP and falling unemployment connected to household spending and inflation?

2. After the fuel shortage, how did real GDP, unemployment, and inflation change? Explain why prices rose while production fell.

3. Why could falling real GDP make it harder for families to buy goods even if they kept their jobs?

4. During the fuel shortage, how might government hiring and higher central bank interest rates affect jobs and inflation differently?

3 YOUR TURN

Your own words

Imagine Lydon's factories find a faster way to make bikes and fuel deliveries improve. In four or five sentences, predict what might happen to real GDP, unemployment, and inflation, and explain one uncertainty in your forecast.

Three Signals, One Economy

PART 1 · READ AND MARK

Underline one cause-and-effect link for each of real GDP, unemployment, and inflation. Write G, U, or I beside each link to show which measure it helps explain. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	In Lydon's first year, how were growing real GDP and falling unemployment connected to household spending and inflation?	**As production grew, factories added shifts and unemployment fell. More paychecks supported spending, but crowded factories could not quickly meet demand, so inflation rose.**
2	After the fuel shortage, how did real GDP, unemployment, and inflation change? Explain why prices rose while production fell.	**Real GDP shrank 2 percent, unemployment rose to 8 percent, and inflation reached 7 percent. Higher shipping costs pushed prices up even as businesses sold fewer items.**
3	Why could falling real GDP make it harder for families to buy goods even if they kept their jobs?	**During the downturn, prices rose. Workers whose wages did not keep up with inflation could buy less with their paychecks.**
4	During the fuel shortage, how might government hiring and higher central bank interest rates affect jobs and inflation differently?	**Government hiring could support jobs and production, but the extra spending could increase price pressure while supplies were scarce. Higher interest rates could ease inflation by slowing spending, but they could also reduce sales and hiring.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

If factories can make bikes faster and fuel deliveries improve, Lydon's real GDP would likely rise as businesses produce more. Firms might hire more workers, pushing unemployment down. Greater supplies and cheaper shipping could slow inflation even as sales increase. However, if spending rises faster than supply, inflation might stay high.

Accept predictions that connect each indicator to the changes in production or shipping costs. Students may predict steady rather than falling unemployment if they explain why higher productivity might let firms produce more without hiring.