Reading the Economy

Use connected indicators to identify policy goals and tradeoffs.

12.E4a "Policy makers establish economic goals related to economic indicators, including the Gross National Product (GNP), Gross Domestic Product (GDP), Consumer Price Index (CPI), employment and interest rates, and aggregate supply and demand."

NAME ______________________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Circle indicators. Underline policy goals. Mark an example of a trade-off.

A Policy Dashboard

1. Policy makers use several indicators to set goals for output, prices, and employment. GDP measures final goods and services produced within a country over time. GNP measures production by labor and property supplied by its residents, including abroad. Comparing them highlights cross-border economic activity. Real GDP adjusts for price changes; rising nominal GDP alone does not prove that more goods and services were produced.

2. CPI tracks price changes for a basket purchased by urban consumers. Rapid CPI growth signals inflation, which reduces purchasing power if income does not keep pace. Employment rates measure the working share of a specified population. Interest rates affect borrowing costs and returns to saving. Strong employment and price stability can conflict: spending growing faster than productive capacity may raise prices even as hiring expands.

3. Aggregate demand describes total planned spending at different overall price levels; aggregate supply describes output producers offer at those levels. A demand surge can strain capacity; a supply disruption can raise prices and lower output. Fiscal policy changes government spending or taxes. Monetary policy influences money, credit, and interest rates. Trade policy shapes international market access and costs. Officials compare indicators before selecting goals and tools, recognizing that effects are uncertain and uneven.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why might policy makers compare GDP with GNP?

2. What does a rapidly rising CPI signal, and how can it affect consumers?

3. Why can the goals of strong employment and moderate inflation conflict?

4. How does each policy tool named in the passage affect the economy?

3 YOUR TURN

Your own words

A fictional supply interruption raises import costs while spending stays high. In four sentences, identify two indicators to track, state a policy goal, choose one policy tool, and explain a trade-off.

PART 1 · READ AND MARK

Circle indicators. Underline policy goals. Mark an example of a trade-off. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why might policy makers compare GDP with GNP?	**GDP concerns domestic production; GNP concerns production using residents' labor and property, including abroad. Their comparison highlights cross-border activity.**
2	What does a rapidly rising CPI signal, and how can it affect consumers?	**Rapid CPI growth signals inflation. Purchasing power falls if consumers' incomes do not keep pace.**
3	Why can the goals of strong employment and moderate inflation conflict?	**If spending grows faster than the economy's capacity to produce, prices may rise even as hiring increases.**
4	How does each policy tool named in the passage affect the economy?	**Fiscal policy changes government spending or taxes. Monetary policy affects money and credit conditions, including interest rates. Trade policy can alter costs, markets, and supply links with other nations.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Officials could track real GDP and CPI growth to assess weaker output and rising prices. A goal is slower inflation while limiting job losses. Monetary tightening could reduce demand through higher borrowing costs. It cannot directly repair the supply interruption and may further weaken investment and employment.

Accept equivalent explanations that accurately connect each indicator to a policy goal or tradeoff. For the open response, accept different policy choices when the student explains a plausible effect and a related tradeoff.