The Price Ripple

Trace how a global cost change reaches a local economy.

E.C.8 "Examine the impact of the global economy on domestic conditions within the United States of America's economy. Describe how current economic conditions can be affected by many factors (e.g., unemployment, Consumer Price Index (CPI)..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two cause-and-effect chains that begin with the higher cocoa price. Circle one price signal, then number two possible effects of a price ceiling.

When Cocoa Costs More

1. A poor harvest abroad raises the price a U.S. chocolate maker pays for imported cocoa. Cocoa is scarcer relative to shoppers' demand, so its higher price signals the maker to use less cocoa or seek another supplier. If the maker raises candy prices, some shoppers buy fewer bars, while others switch to different snacks. The Consumer Price Index (CPI) tracks changes in prices paid by urban consumers for a basket of goods and services. A jump in candy prices alone does not prove broad inflation, but sustained increases across many prices can raise the CPI.

2. Suppose lawmakers set a legal ceiling on chocolate bar prices below the price that would balance supply and demand. At that low price, more shoppers want bars, but fewer makers are willing to supply them. Shortages and long lines may follow. The ceiling helps shoppers who find bars pay less, yet other shoppers may find none. If production falls, a maker may cut workers' hours or lay them off. Households with less pay may use savings or add credit card debt, leaving less money for other purchases. Policymakers must weigh these trade-offs rather than assume the ceiling creates more cocoa.

3. When the chocolate maker cuts jobs, the effects spread. Laid-off workers spend less at nearby stores, and lower sales can reduce tax revenue. A worker searching for a new job after leaving one is frictionally unemployed; a worker whose skills do not match available jobs faces structural unemployment. During a broad downturn, layoffs can cause cyclical unemployment. Officials count as unemployed people without jobs who are available and actively sought work in the past four weeks, as well as people on temporary layoff expecting recall. The labor force includes employed people plus everyone counted as unemployed. Divide unemployed people by the labor force to find the unemployment rate.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does the harvest abroad affect the chocolate maker, and what does the new cocoa price signal the maker to do?

2. Why does a higher candy price alone not prove broad inflation? Use the CPI description in your answer.

3. If lawmakers cap chocolate bar prices below the price that balances supply and demand, how might the cap affect both shoppers and makers?

4. Who is counted as unemployed in the passage, and what group is used to calculate the unemployment rate?

3 YOUR TURN

Your own words

Imagine imported bicycle parts become more expensive after a disruption overseas. In five or six sentences, explain how a higher bike price could guide buyers and sellers, what might happen if lawmakers cap bike prices below the price that balances supply and demand, and one possible effect on workers and another local business.

ANSWER KEY

The Price Ripple

HIGH SCHOOL · E.C.8

PART 1 · READ AND MARK

Underline two cause-and-effect chains that begin with the higher cocoa price. Circle one price signal, then number two possible effects of a price ceiling. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does the harvest abroad affect the chocolate maker, and what does the new cocoa price signal the maker to do?	**The poor harvest raises the maker's cocoa cost. The higher price signals the maker to use less cocoa or seek another supplier.**
2	Why does a higher candy price alone not prove broad inflation? Use the CPI description in your answer.	**The CPI tracks prices for a basket of goods and services. A change in candy prices alone does not show sustained increases across many prices.**
3	If lawmakers cap chocolate bar prices below the price that balances supply and demand, how might the cap affect both shoppers and makers?	**More shoppers want bars while fewer makers supply them. Some shoppers pay less, but others face shortages or long lines, and makers may cut production.**
4	Who is counted as unemployed in the passage, and what group is used to calculate the unemployment rate?	**Those counted include people without jobs who are available and actively sought work in the past four weeks, plus people on temporary layoff expecting recall. The rate divides unemployed people by the labor force, which includes employed and counted unemployed people.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

More expensive imported parts raise a bike shop's costs, so the shop raises its bike prices. The higher price may lead some buyers to repair old bikes instead, while sellers may look for less costly parts. If lawmakers cap bike prices below the price that balances supply and demand, more people may want bikes than shops are willing to sell. Some buyers may pay less, but others may find empty shelves. If the shop cuts production and lays off a worker, that worker may spend less at a nearby grocery store.

Accept equivalent cause-and-effect explanations that distinguish a price increase for one product from broad inflation. For the open task, look for a plausible buyer response, seller response, shortage under a binding price ceiling, and an effect that reaches workers and another business.