Standard 19 : Unemployment and Inflation

Students will understand that:
Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards because individuals and organizations use resources to protect themselves against the uncertainty of future prices.

Students will be able to use this knowledge to:
Make informed decisions by anticipating the consequences of inflation and unemployment.

Inflation and unemployment are important because they affect national levels of economic growth and standards of living. Some aspects of inflation and unemployment can be addressed with public policies. Various political leaders and parties often have different ideas about which policies should be followed to deal with inflation and unemployment, however. The controversial policies, and the fact that almost everyone is affected by unemployment or inflation, explain why these two problems and alternative approaches to combat them are so widely reported in the news media, and why understanding them is important to people in a democratic political system.

Benchmarks

Grade 4

At the completion of Grade 4, students will know that:	At the completion of Grade 4, students will use this knowledge to:
Inflation is an increase in most prices; deflation is a decease in most prices.	Determine in which years inflation occurred and in which years deflation occurred, given the prices for a market basket of goods and services for three different years.
Unemployment exists when people who are willing and able to work do not have jobs.	Apply the standard definition of an unemployed person by explaining why retired people and students are not considered unemployed.

Grade 8

At the completion of Grade 8, students will know the Grade 4 benchmarks for this standard, and also that:	At the completion of Grade 8, students will use this knowledge to:

When unemployment exists, an economy's production is less than potential GDP and some labor resources are not used.	Identify goods or services that could be produced if the local community's unemployed had jobs. Draw a flow chart that shows the ripple effect resulting from unemployment in a particular industry or community.
The labor force consists of people age 16 and over who are employed or actively seeking work.	Determine whether each of the following is counted as a member of the labor force: (1) an elementary school student who has a paper route; (2) an army captain; (3) a retired butcher; (4) an insurance salesperson; (5) a woman who has decided not to work outside the home until her children are in school; and (6) a 42-year old civil engineer who looked for two years, but finally gave up searching for a job because he was discouraged by his lack of success.
Inflation reduces the value of money.	Interview someone aged 50-59 years old about grocery prices. Compare the groceries that could be purchased for $10 in 1967 with those that can be purchased for $10 today.
When people's incomes increase more slowly than the inflation rate, their purchasing power declines.	Compare the prices of a market basket of goods in 1980 with similar prices today. Explain how inflation reduces purchasing power for people whose income is fixed or increasing slower than the rate of inflation.

Grade 12

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:	**At the completion of Grade 12, students will use this knowledge to:**
The unemployment rate is the percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for work.	Calculate the unemployment rate for the following problem: Berks County has 200,000 people. Of that population 70,000 are full-time housewives, students, children, retired people, or people not looking for work. Of the remaining residents of Berks County, 110,000 people have jobs.

The unemployment rate is an imperfect measure of unemployment because it does not: (1) include workers whose job prospects are so poor that they are discouraged from seeking jobs, (2) reflect part-time workers who are looking for full-time work.	Explain why the following may be true: A weekly news magazine reports that the current unemployment statistic does not accurately reflect the true impact of unemployment.
Unemployment rates differ for people of different ages, races, and sexes. This reflects differences in work experience, education, training, and skills, as well as discrimination.	Locate data pertaining to unemployment rates for young people and minorities, and explain why unemployment rates for these groups differ from the unemployment rates for other groups in the economy.
Unemployment can be caused by people changing jobs, by seasonal fluctuations in demand, by changes in the skills needed by employers, or by cyclical fluctuations in the level of national spending.	Give examples of each type of unemployment, analyze the differences among them, and identify which types cause more serious problems in the economy.
Explain why some people are unemployed when the economy is said to be functioning at full employment.	Full employment means that the only unemployed people in the economy are those who are changing jobs.
The consumer price index (CPI) is the most commonly used measure of price-level changes. It can be used to compare the price level in one year with price levels in earlier or later periods.	Determine the current price for a pair of designer sunglasses that cost $50 in 1982-84, assuming the price has increased at the average rate of inflation.
Expectations of inflation may lead to higher interest rates.	Explain their answer to the following question: If you were going to lend $100 to someone for a year, would you ask for more or less interest if you expected the prices of most things you buy to rise substantially over the year?
The costs of inflation are different for different groups of people. Unexpected inflation hurts savers and people on fixed incomes; it helps people who have borrowed money at a fixed rate of interest.	For each of the following cases, tell who would be harmed by an unexpected 10 percent inflation rate, who would benefit, and explain why: (1) Mike's retirement income is $24,000 a year; (2) Bonnie borrowed $5,000 last year and must pay it back at the end of this year; (3) John lent the $5,000 to Bonnie last year and will be paid back at the end of this year; (4) Bob and Mary bought several houses as an investment 10 years ago, and now they plan

	to sell them; (5) businesses selling consumer products such as clothing and food.
Inflation imposes costs on people beyond its effects on wealth distribution because people devote resources to protect themselves from expected inflation.	Identify assets people can buy to protect themselves financially against inflation and discuss how much time people spent with this problem in times of high inflation (e.g. 1981) compared to times of low inflation (e.g. 1955).