

Measuring the Economy

How do economists measure a nation's economic health?

Vocabulary Terms

As you complete the Reading Notes, use these terms in your answers:

inflation	inflation rate
economic indicators	consumer price index
gross domestic product (GDP)	(CPI)
	business cycle
unemployment rate	recession

PREVIEW

Read the historical letter reprinted on *Letter from a Young Woman*. Then answer the questions that follow.

- What does this letter reveal about the young woman's life?
- During what time period was this letter written? How do you know?
- Based on this letter, what do you think was happening to consumer spending and business during the Great Depression? To people's jobs? To prices and wages?
- After reading this letter, what details can you share about the health of the U.S. economy during the Great Depression?

READING NOTES

Section 1

1. Give an example of an economic activity included in GDP, and explain why it is included. Give an example of an economic activity not included in GDP, and explain why it is not included.
2. Create a drawing that illustrates how to calculate GDP. Represent each component of the formula with an illustration, a label, and a definition.
3. Complete a table like the one below. Then answer these questions: Which of these measures would an economist use to compare GDP from various time periods, and why? Which measure would an economist use to compare the GDP of various countries, and why?

	Definition	How is it measured?
Nominal GDP		
Real GDP		
Per capita GDP		

4. Do you think GDP is a good measure of economic health? Why or why not?

Section 2

1. Create a drawing that illustrates how to calculate the unemployment rate. Represent each component of the formula with an illustration, a label, and a definition.
2. Complete a table like the one below. Then answer these questions: Which type of unemployment do you think is most associated with an unhealthy economy? Why? Does an economy with full employment have any of these types of unemployment? Why or why not?

Type of Unemployment	Definition	Example

3. Do you think the unemployment rate is a good measure of economic health? Why or why not?

Section 3

1. Create a drawing that illustrates how to calculate the inflation rate using the consumer price index. Define and include one or more symbols to represent the CPI.
2. Complete a table like the one below. Then answer this question: How do economists use this information to determine whether higher prices mean that things cost more than they used to?

	Definition	How is it measured?
Nominal cost of living		
Real cost of living		
Nominal wages		
Real wages		

3. A graphic organizer is a diagram for visually organizing and recording information about a particular subject. Design a graphic organizer for recording notes about the three types of inflation. For each type of inflation, include a definition, an example, and a summary of its effects.
4. What are the main causes of inflation?
5. Draw a simple flowchart to show how the wage-price spiral contributes to the inflation rate.

6. Do you think the inflation rate is a good measure of economic health? Why or why not?

Section 4

1. Create a drawing that illustrates how the business cycle works. Represent each phase of the cycle with an illustration, a label, and a definition.
2. Complete a table like the one below. Describe the general behavior of the three key indicators during each phase.

	Real GDP	Unemployment Rate	Inflation Rate
Expansion			
Contraction			

3. Complete a T-chart with the heads below. Identify five or more items for each side.

Causes and Characteristics of an Expanding Economy	Causes and Characteristics of a Contracting Economy

4. Why might an economy stop expanding and start contracting?
5. What is the difference between a recession and a depression?

PROCESSING

You are an analyst writing a column on current economic conditions for a national U.S. newspaper. Your column should clearly answer this question: *What do key indicators reveal about the health of the current U.S. economy?*

In your column, be sure to include

- recent data on gross domestic product, unemployment, and inflation.
- an explanation of what these key indicators reveal about the health of the economy.
- a forecast on whether the U.S. economy is in a contraction or an expansion phase.
- two or more visuals (graphs, tables, drawings, or photographs) related to your column.

Letter from a Young Woman

Greensboro, N.C.
February 12, 1938

Dear Mrs. Roosevelt,

On January 1st, I was layed off from my work leaving my brother the whole support of our family. Just recently he was cut down to 3 days a week with a cut in salary. With seven of us in the family it is just about impossible for us to live on this amount . . .

I am 18 years of age the oldest girl in the family, and it just seems impossible for me to get a job any where. I have been to Mills, Stores and Firms of all sorts. I am willing and able to work. Can furnish excellent references but at this time of the year it just seems impossible to find work.

We are so in debt and each week the bills are piling higher and higher that it seems as if there was no way out.

We must make a payment on our furniture bill, and if it isn't paid soon they will be out any day for our furniture. And of top of this we are behind in our rent.

It would be a big help if we could get some of our bills paid on as they are already impatient for their money.

If you could help us out with from \$ 35.00 to \$ 50.00 I believe we would be the happiest family in the world . . .

Just as soon as I get back to work and the family is on their feet again I will pay you back as much a week as possible until your kind favor has been fully repaid.

My Father's work has been very poor for the past year, he is an advertising salesman, and his work right now is practically nothing . . .

Please grant me this favor and I will ever be,

Gratefully yours

From *Dear Mrs. Roosevelt: Letters from Children of the Great Depression* by Robert Cohen.
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