

1  **Unemployment**

- What are the different types of unemployment?
- How are unemployment rates determined?
- What is full employment?

2  **Types of Unemployment**

Frictional Unemployment

- Occurs when people change jobs, get laid off from their current jobs, take some time to find the right job after they finish their schooling, or take time off from working for a variety of other reasons

Structural Unemployment

- Occurs when workers' skills do not match the jobs that are available. Technological advances are one cause of structural unemployment

Seasonal Unemployment

- Occurs when industries slow or shut down for a season or make seasonal shifts in their production schedules

Cyclical Unemployment


- Unemployment that rises during economic downturns and falls when the economy improves

3  **Determining the Unemployment Rate**


- A nation's unemployment rate is an important indicator of the health of the economy.
- The Bureau of Labor Statistics polls a sample of the population to determine how many people are employed and unemployed.
- The unemployment rate is the percentage of the nation's labor force that is unemployed.
- The unemployment rate is only a national average. It does not reflect regional economic trends.

4  **Full Employment**

- Economists generally agree that in an economy that is working properly, an unemployment rate of around 4 to 6 percent is normal.
- Sometimes people are underemployed, that is working a job for which they are over-qualified, or working part-time when they desire full-time work.
- Discouraged workers are people who want a job, but have given up looking for one.

5  **Section 1 Assessment**

1. Unemployment that occurs when workers' skills do not match the jobs that are available is known as
  - (a) frictional unemployment.
  - (b) structural unemployment.
  - (c) seasonal unemployment.
  - (d) cyclical unemployment.
2. The unemployment rate
  - (a) is the percentage of the labor force that is unemployed.
  - (b) is the number of people who are unemployed.
  - (c) includes only discouraged workers.
  - (d) is the percentage of the labor force that is underemployed.

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7  **Inflation**

- What are the effects of rising prices?
- How do economists use price indexes?
- How is the inflation rate calculated?
- What are the causes and effects of inflation?

8  **The Effects of Rising Prices**

- Inflation is a general increase in prices.
- Purchasing power, the ability to purchase goods and services, is decreased by rising prices.
- Price level is the relative cost of goods and services in the entire economy at a given point in time.


9  **Price Indexes**

- The consumer price index (CPI) is computed each month by the Bureau of Labor Statistics.
- The CPI is determined by measuring the price of a standard group of goods meant to represent the typical "market basket" of an urban consumer.
- Changes in the CPI from month to month help economists measure the economy's inflation rate.
- The inflation rate is the percentage change in price level over time.


10  **Calculating Inflation**

- To determine the inflation rate from one year to the next, use the following steps.

11  **Causes of Inflation**

1  The Quantity Theory

- The quantity theory of inflation states that too much money in the economy leads to inflation.
- Adherents to this theory maintain that inflation can be tamed by increasing the money supply at the same rate that the economy is growing.


2  The Cost-Push Theory

- According to the cost-push theory, inflation occurs when producers raise prices in order to meet increased costs.
- Cost-push inflation can lead to a wage-price spiral — the process by which rising wages cause higher prices, and higher prices cause higher wages.

12  **Effects of Inflation**

- High inflation is a major economic problem, especially when inflation rates change greatly from year to year.
  - Purchasing Power
    - In an inflationary economy, a dollar loses value. It will not buy the same amount of goods that it did in years past.
  - Interest Rates
    - When a bank's interest rate matches the inflation rate, savers break even. When a bank's interest rate is lower than the inflation rate, savers lose money.
  - Income
    - If wage increases match the inflation rate, a worker's real income stays the same.

If income is fixed income, or income that does not increase even when prices go up, the economic effects of inflation can be harmful.

13  **Section 2 Assessment**

1. Inflation is
  - (a) the process by which rising wages cause higher prices.
  - (b) the price increase of a typical group of goods.
  - (c) a general increase in prices.
  - (d) the ability to purchase goods and services.
2. Too much money in the economy is the cause of inflation according to
  - (a) the quantity theory.
  - (b) the demand-pull theory.
  - (c) the quantum theory.
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15  **Poverty**

- Who is poor, according to government standards?
- What causes poverty?
- How is income distributed in the United States?
- What government programs are intended to combat poverty?

16  **Who Is Poor?**

- 1 The Poverty Threshold
  - The poverty threshold is an income level below which income is insufficient to support a family or household.
  -
- 2 The Poverty Rate
  - The poverty rate is the percentage of people in a particular group who live in households below the official poverty line.
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17  **Causes of Poverty**

Lack of Education

- The median income of high-school dropouts in 1997 was \$16,818, which was just above the poverty line for a family of four.

Location

- On average, people who live in the inner city earn less than people living outside the inner city.

Shifts in Family Structure

- Increased divorce rates result in more single-parent families and more children living in poverty.

Economic Shifts

- Workers without college-level skills have suffered from the ongoing decline of manufacturing, and the rise of service and high technology jobs.

#### Racial and Gender Discrimination

- Some inequality exists in wages between whites and minorities, and men and women.

18  **Income Distribution in the United States**

#### Income Inequality

- The Lorenz Curve illustrates income distribution.

#### Income Gap

- A 1999 study showed that the richest 2.7 million Americans receive as much income after taxes as the poorest 100 million Americans.
- Differences in skills, effort, and inheritances are key factors in understanding the income gap.

19  **Government Policies Combating Poverty**

- Employment Assistance

- The minimum wage and federal and state job-training programs aim to provide people with more job options.

- Welfare Reform

- Temporary Assistance for Needy Families (TANF) is a program which gives block grants to the states, allowing them to implement their own assistance programs.
- Workfare programs require work in exchange for temporary assistance.

20  **Section 3 Assessment**

1. An income level below which income is insufficient to support a family or household is known as the
  - (a) income gap.
  - (b) poverty rate.
  - (c) poverty threshold.
  - (d) income inequality.
2. The Personal Responsibility and Work Opportunity Act of 1996
  - (a) provides lump sums of money to poor families.
  - (b) provides federal payments to poor families to supplement state payments.
  - (c) set a 5-year limit on receipt of benefits.
  - (d) provides direct cash payments to poor families.

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