Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. Describe macroeconomics terms, and determine how they can be used to assess the health of a country’s economy.

2. Analyze the impact of inflation and deflation on individuals, businesses, and the economy as a whole, and define fiat currency.

3. Examine the stages of the business cycle, and define recession and depression.

Resources. The following resources may be useful in teaching this lesson:

- Corresponding E-unit(s). Danville, IL: CAERT, Inc. www.mycaert.com
Equipment, Tools, Supplies, and Facilities.

- Overhead or PowerPoint projector
- Visual(s) from accompanying master(s)
- Copies of sample test, lab sheet(s), and/or other items designed for duplication
- Materials listed on duplicated items
- Computers with printers and Internet access
- Classroom resource and reference materials

Key Terms. The following terms are presented in this lesson (shown in bold italics):

- business cycle
- consumer price index
- consumption
- depression
- exports
- fiat currency
- government spending
- gross domestic product
- gross national product
- imports
- inflation
- investment
- net exports
- net national product
- recession
- unemployment rate

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

Find a recent newspaper article regarding the unemployment rate and make copies for all of your students. Unemployment rates are updated quarterly, so a recent article should be available. Ask students what they think unemployment means. Then ask them to read the article. Ask if it is better to have a high unemployment rate or a low unemployment rate.
Objective 1: Describe macroeconomics terms, and determine how they can be used to assess the health of a country’s economy.

Anticipated Problem: What are some terms in macroeconomics? How do economists measure the health of the country’s economy?

I. Economists use many factors to determine if the economy is healthy. A “sick” or weak economy meets far fewer of the needs and wants of individuals than a healthy economy.

A. **Gross domestic product** (GDP) measures the value of all the final goods and services produced within a country’s borders. GDP is composed of consumption, investment, government spending, and net exports. GDP = C + I + G + NX
   1. **Consumption** is the value of household (family) spending on goods and services (e.g., food, clothing, medical expenses, and dining at restaurants).
   2. **Investment** is the value of household or business spending on capital. Examples of capital are purchases of land, buildings, or equipment. Household purchases of housing are included in investment rather than consumption.
   3. **Government spending** includes all of the spending done by national, state, and local governments on goods and services. For example, governments build roads, hire and pay teachers, and hire firms to build army equipment.
   4. **Net exports** are composed of exports and imports. In GDP, net exports are equal to exports minus imports.
      a. **Exports** are produced in the country, but they are consumed in other countries.
      b. Alternatively, **imports** are produced in other countries, but they are consumed in the country. Because GDP focuses on production within the borders of the country, exports are added to GDP and imports are subtracted.

B. **Gross national product** (GNP) measures the value of all goods and services produced by nationals of the country in question, whether they live in the country or other countries. GDP measures the value of goods and services produced only within the borders of a country by all the people who live there (nationals and non-nationals), while GNP measures the value of goods and services produced by the nationals of the country regardless of where they live.

C. **Net national product** (NNP) is equal to GNP minus depreciation. Depreciation accounts for the decline in the value of an asset as it is used. For example, new tractors are worth more than used tractors because their values have not yet depreciated.
D. The unemployment rate is a measure of the percent of the population actively seeking work, not currently working.

E. Most economies experience a general and gradual rise in the prices of goods and services—**inflation**. One measure of inflation is the consumer price index (CPI), which measures the cost of a “basket” of consumer goods (e.g., food, clothing, and transportation) at different points in time. The cost of this basket often generally rises over time. If the cost of the basket ever falls, it is called deflation.

**Display VM–A. Provide information on the board, and have students use the formula to calculate GDP.**

**Objective 2:** Analyze the impact of inflation and deflation on individuals, businesses, and the economy as a whole, and define fiat currency.

**Anticipated Problem:** What impact does inflation have on individuals, businesses, and the economy as a whole?

II. Inflation in the prices of goods and services tends to benefit some groups at the expense of other groups.

A. Businesses tend to benefit from inflation because they buy inputs at low prices and sell at higher prices that include inflation. The lag between these transactions can improve profit outlooks.

B. Inflation is likely to benefit sellers because their prices are rising. Inflation is likely to hurt consumers because the price they pay for goods and services is rising.

C. Inflation is likely to benefit borrowers of money because the borrowed dollars are worth more than the dollars used to repay the loan. Conversely, inflation is likely to harm lenders because they lend dollars that are worth more than the dollars they receive as repayment.

D. Inflation hurts those on a fixed income. For example, many retired people receive the same payment every year. When prices rise, the fixed income buys fewer goods.

E. **Fiat currency** is money that exists because an authority states that it can be used to settle public and private debts. Economies that use fiat currencies believe the currency will be relatively stable. So they believe there will not be large amounts of inflation or deflation from year to year.

**Display VM–B. Ask students to interview people on a fixed budget. They should determine how the economic conditions have impacted them. Then they should report their findings to the class.**
Objective 3: Examine the stages of the business cycle, and define recession and depression.

Anticipated Problem: What causes the macro economy to have peaks and valleys? What is a recession? What is a depression?

III. The macro economy (measured by GDP) generally grows at a relatively steady pace. There are periods, however, when the economy shrinks, does not grow as fast, or grows really fast. These up-and-down fluctuations in GDP are called the business cycle.

A. Fluctuations in the production of goods and services
   1. Technology innovations might cause fluctuations in the production of goods and services.
   2. Changes in interest rates might cause fluctuations in the production of goods and services.
   3. Government spending might cause fluctuations in the production of goods and services.

B. A business cycle contraction is called a recession. A recession occurs when GDP has negative growth (declines) for at least two consecutive quarters (six months).

C. A particularly long and deep recession is called a depression. Most economists generally agree that the recession must include a drop in GDP of at least 10 percent and three years of GDP declines for it to be termed a depression. The last depression in the United States occurred in the 1930s and was called The Great Depression.

Use VM–C to discuss a recession. You may also want to show some excerpts from financial news networks to promote additional dialogue pertaining to the economy.

Review/Summary. Focus the review and summary of the lesson around the student learning objectives. Call on students to explain the content associated with each objective. Use their responses to determine which material needs to be taught again, using a different approach.

Application. Use the included visual masters and lab sheet to apply the information presented in the lesson.

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.
Answers to Sample Test:

Part One: Matching

1. a
2. e
3. b
4. d
5. c

Part Two: Completion

1. exports, imports
2. investment
3. fiat currency
4. borrowers, businesses

Part Three: Short Answer

1. Inflation erodes the purchasing power of fiat currency. Therefore, people on fixed incomes will be able to purchase fewer goods and services over time because their budgets are fixed, but prices are increasing.
2. Technology, government spending, and interest rates may impact the business cycle.
Part One: Matching

Instructions: Match the term with the correct definition.

a. gross domestic product  d. inflation
b. gross national product  e. recession
c. unemployment rate

1. The total production of goods and services that occurs within the legal borders of a country
2. A decline in GDP for two or more quarters
3. The total production of all citizens of one country regardless of their location in the world
4. A steady rise in prices over time
5. A measure of those individuals seeking jobs but not working

Part Two: Completion

Instructions: Provide the word or words to complete the following statements.

1. Net exports are calculated as _________________________ minus _________________________.
2. When calculating GDP, the purchase of factories, equipment, and houses is included in _________________________.
3. Money that exists because the government says that is has value is called _________________________.
4. Inflation is most likely to benefit _________________________ and _________________________.

Part Three: Short Answer

Instructions: Answer the following.

1. Explain why inflation is likely to negatively impact lenders and those on fixed incomes.

2. What are some factors that might impact the business cycle?
HOW DO WE CALCULATE GDP?

Gross Domestic Product (GDP) = C + I + G + NX

♦ C is consumption.
♦ I is investment.
♦ G is government spending.
♦ NX is net exports, which is equal to exports minus imports.
WHO BENEFITS AND WHO LOSES FROM INFLATION?

Inflation benefits:
- Borrowers
- Businesses
- Sellers

Inflation hurts:
- Lenders
- Consumers
- Individuals on a fixed income
WHAT ARE SOME COMMON OCCURRENCES DURING RECESSIONS?

♦ The gross domestic product declines.
♦ The unemployment rate rises.
♦ The value of assets (e.g., a house) declines.
♦ Stock market indices, such as the S&P 500 and the Dow Jones Industrial Index, decline.
Macroeconomics

Objectives

1. Demonstrate an understanding of the macro economy.
2. Describe elements that indicate a recession.

Materials

♦ writing utensil
♦ computers
♦ printer

Procedure

Answer the questions on the computer, and print out your responses.

1. How would you know if the economy is “sick?” Be sure to name at least three measures you could use to determine the “health” of the economy.

2. Describe how unemployment is measured. Is a retired individual included in unemployment? Why or why not?