Visual 1.1: Economic Definitions

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Deflation is a general downward movement of prices for goods and services in an economy.

Depression is a very severe recession; a period of severely declining economic activity spread across the economy (not limited to particular sectors or regions) normally visible in a decline in real GDP, real income, employment, industrial production, wholesale-retail credit and the loss of the overall confidence in the economy.

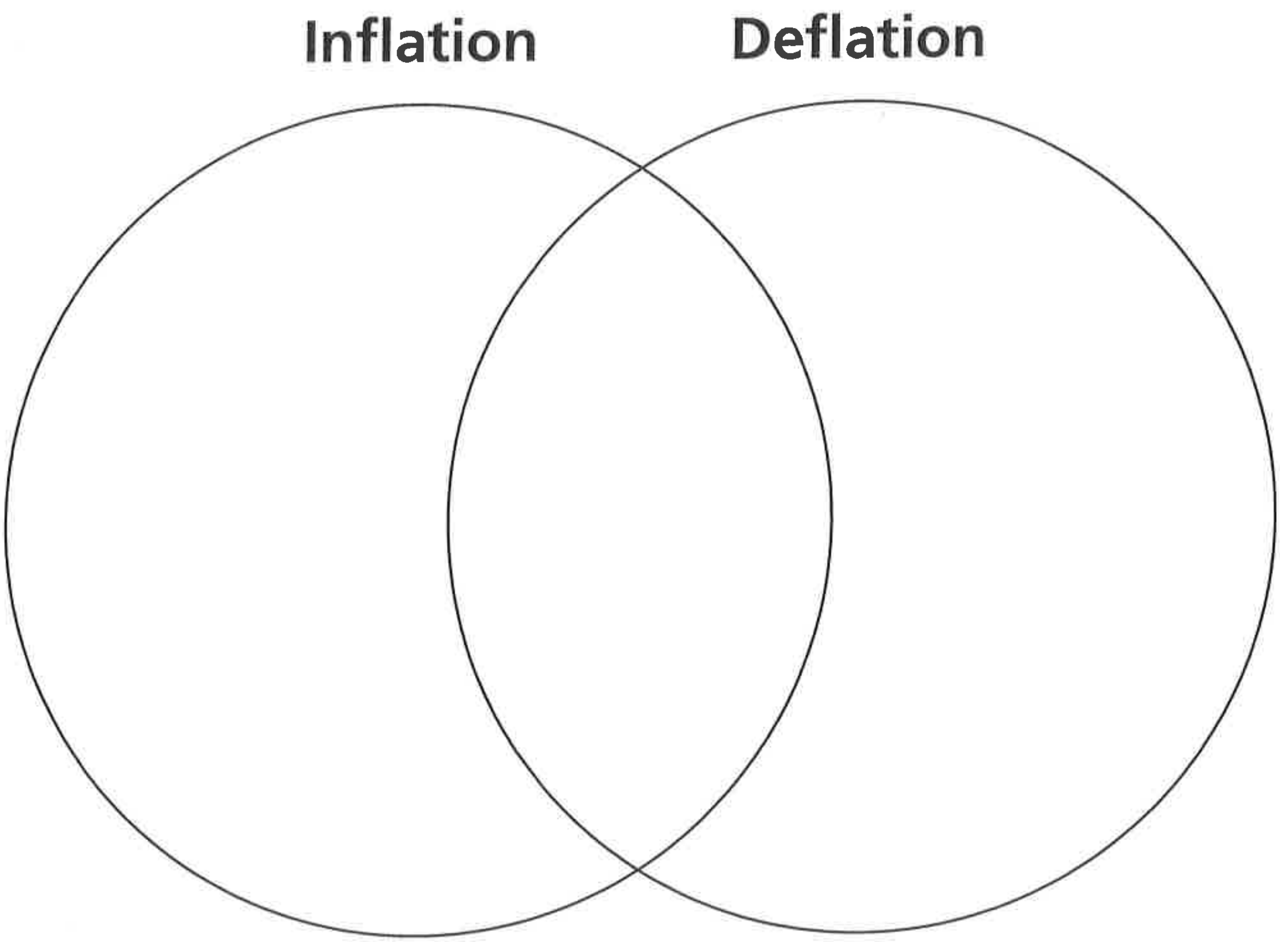
Inflation is a general upward movement of prices for goods and services in an economy.

Nominal Gross Domestic Product (GDP) is the market value of all final goods and services produced within a country in a year.

Real Gross Domestic Product (GDP) is the production of all final goods and services within a country valued at constant prices (i.e., adjusted for inflation or deflation).

Unemployment rate is the percentage of the labor force who are unemployed.

Visual 1.2: Effects of Deflation and Inflation Venn Diagram



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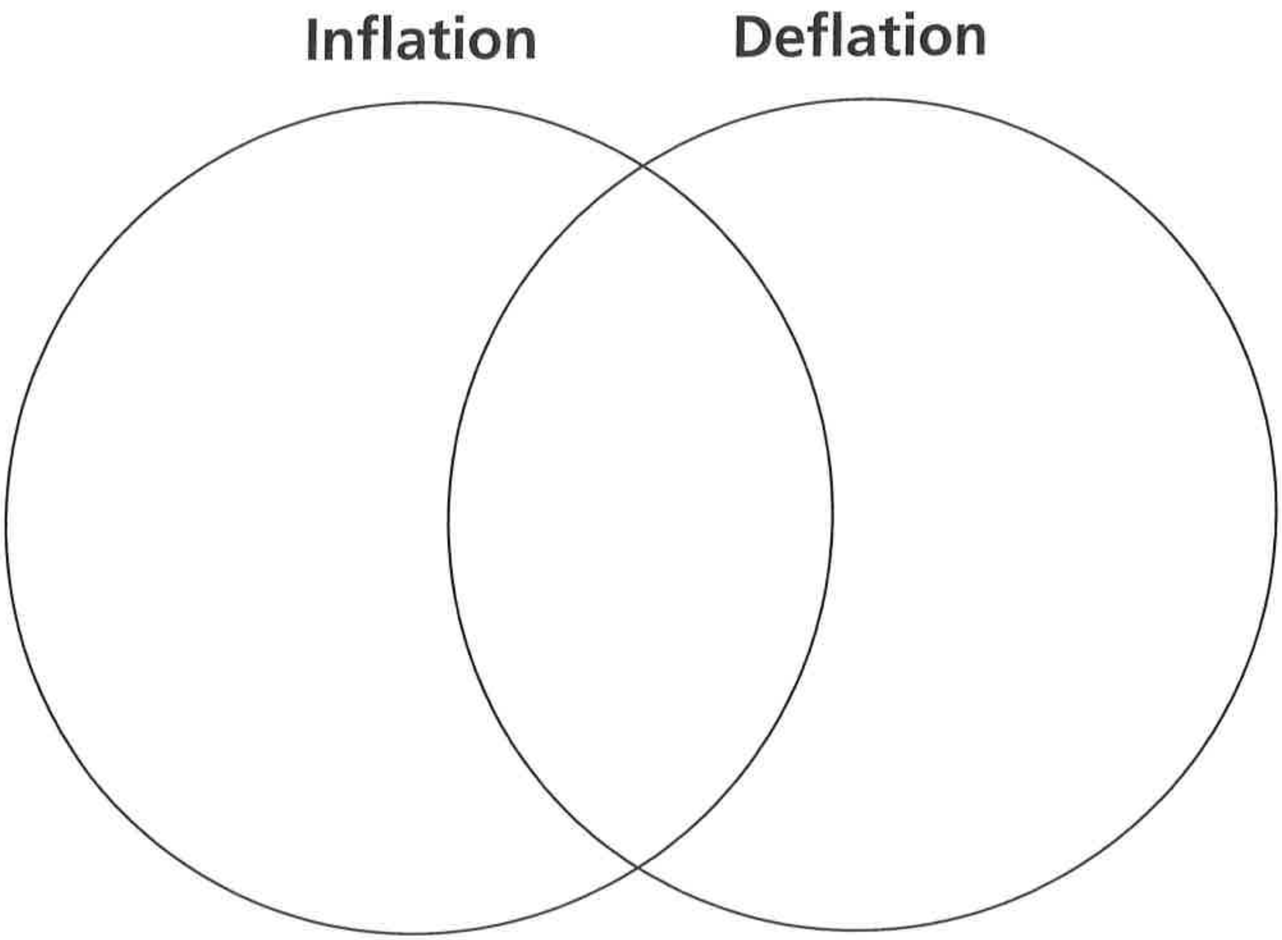


Handout 1.3: Real vs. Nominal GDP

You are a government statistician and have been asked to report on the GDP of Miniland, a small economy which produces only hot dogs and haircuts. Calculate the nominal GDP for year 1 and year 2 by multiplying the price of each good and service by the quantity of each good or service and adding the total production per year in dollars.

Price X Quantity = GDP							
Year 1				Year 2			
Item	Price	Quantity	GDP	Item	Price	Quantity	GDP
Hot Dogs	$1	10	$10	Hot Dogs	$3	20	
Haircuts	$5	4	$20	Haircuts	$12	5	
Nominal GDP = $				**Nominal GDP = $**			

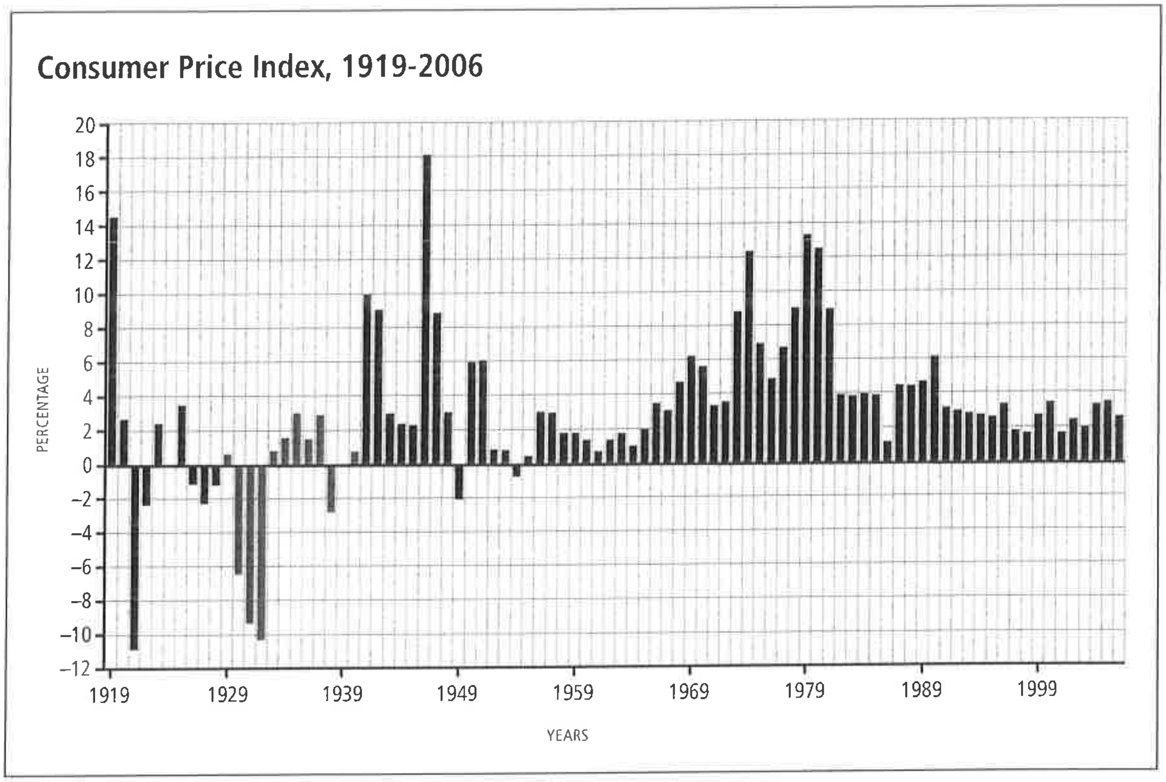
If you looked at information that stated that GDP in year 1 was $30 and in year 2 was $120, you might conclude that the economy produced ____times as many goods and services in year 2 compared with year 1.

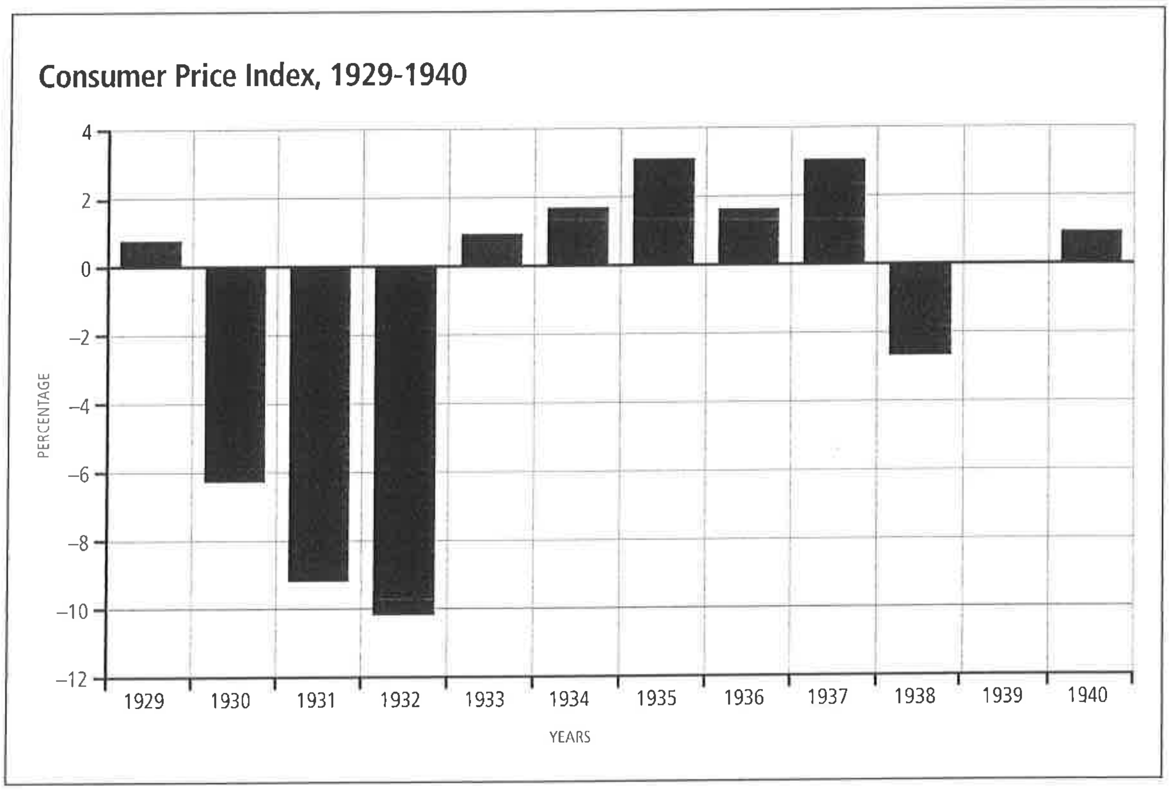
To compare GDP over time, however, you need to determine real GDP. Being a professional statistician, you know that it's possible that part of the increase in GDP from year 1 to year 2 could be due to inflation (rising prices), rather than increased output. Calculate real GDP for year 2 using year 1 as the base year.

Price X Quantity = GDP							
Year 1				Year 2			
Item	Price	Quantity	GDP	Item	Price	Quantity	GDP
Hot Dogs	$1	10	$10	Hot Dogs	$1	20	
Haircuts	$5	4	$20	Haircuts	$5	5	
Real GDP = $				**Real GDP = $**			

To complete your report, explain whether you would use nominal GDP or real GDP and give your reasons.

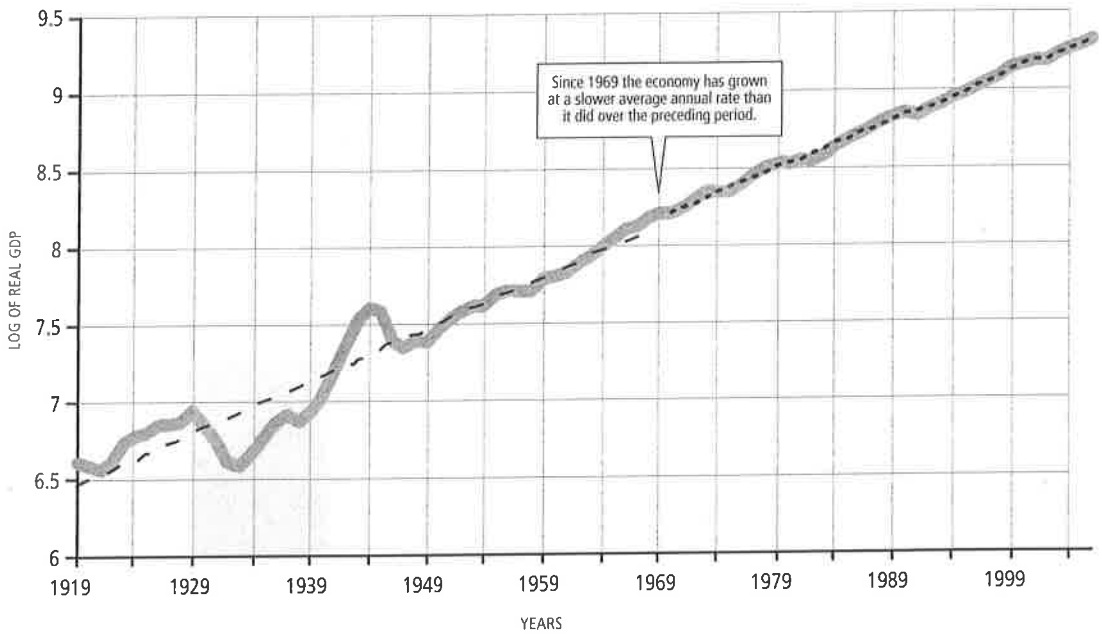
Visual 1.3: Year-Over-Year Percentage Change in Consumer Price Index



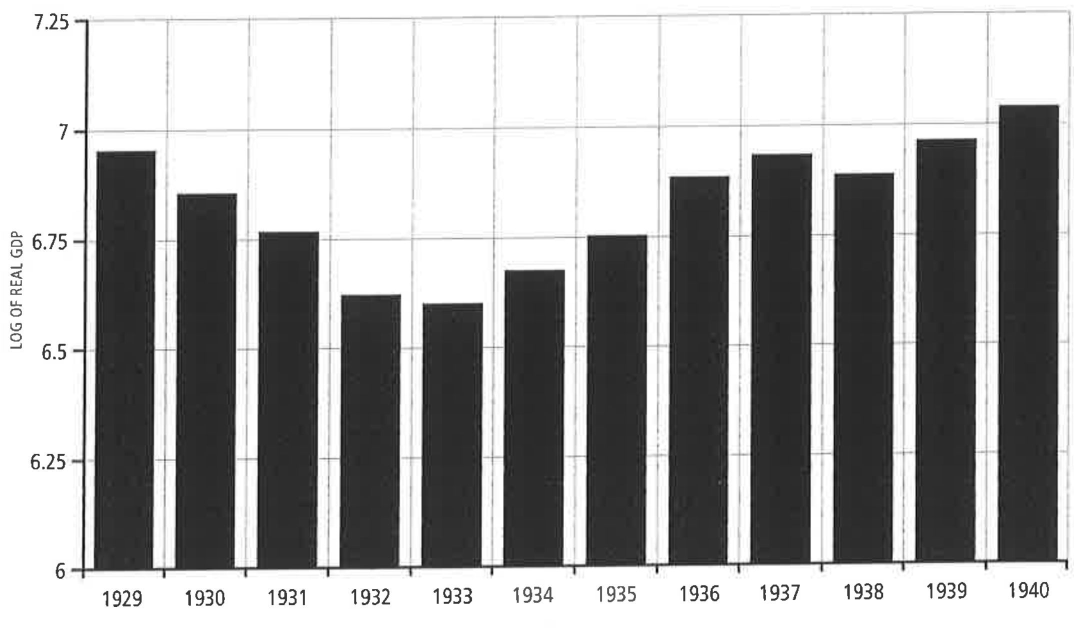


Visual 1.5: Real Gross Domestic Product

Real Gross Domestic Product, 1919-2006

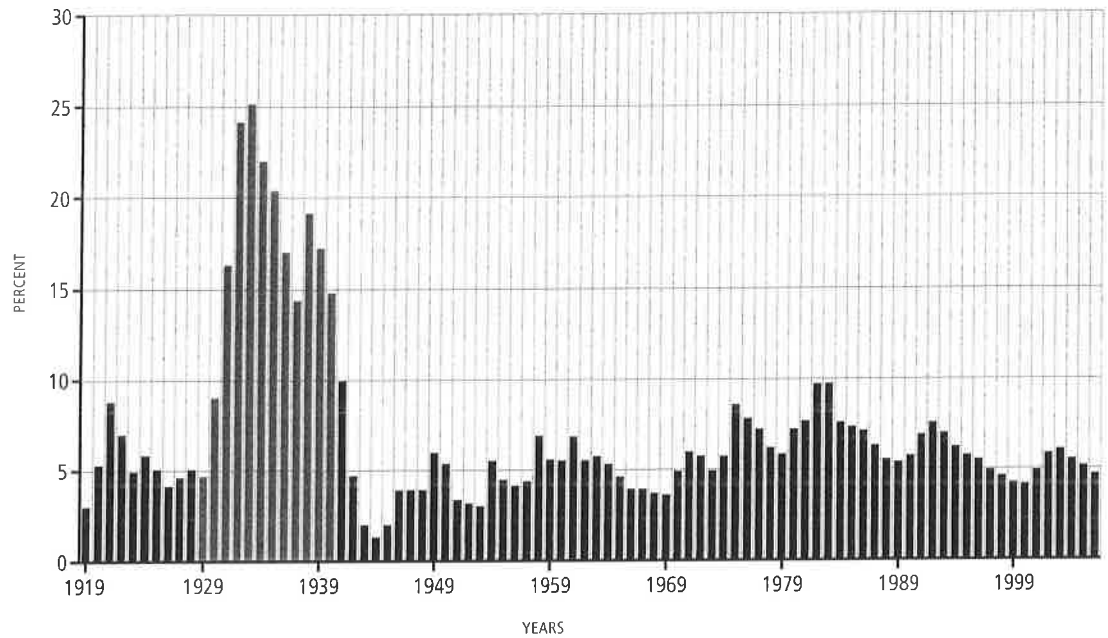


Real Gross Domestic Product, 1929-1940

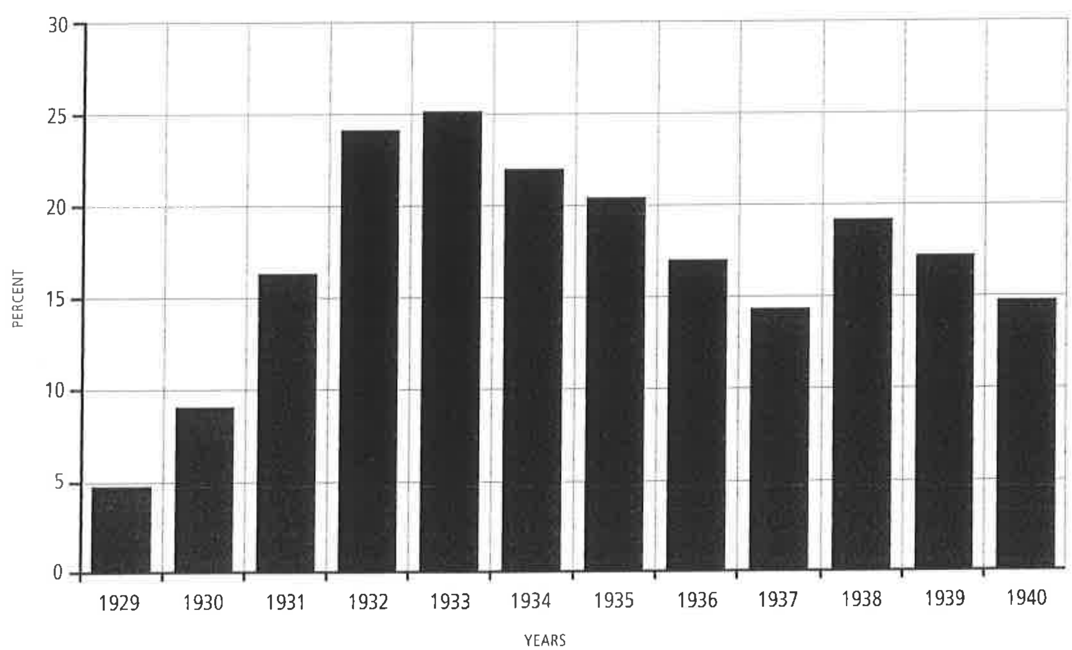


Visual 1.6: Civilian Unemployment Rate

Civilian Unemployment Rate, 1919-2006



Civilian Unemployment Rate, 1929-1940



Handout 1.6: What is in the Chairman's Briefcase?

Read the following scenario and follow the instructions.

It is a sunny spring day in 1933, but the U.S. economy is far from sunny. The chairman of the Federal Reserve Board of Governors has been summoned to the Capitol to meet with the president of the United States. President Roosevelt has called on the chairman because the Federal Reserve, the central bank of the United States, was created in 1913 to provide an "elastic currency" that would expand and contract, based on public demand. President Roosevelt wants to know what economic data the Fed is looking at and what the Fed thinks about the current state of the economy.

The chairman of the Federal Reserve sits down in the Oval Office and begins his report to President Roosevelt. He opens his briefcase and pulls out three graphs that give an overview of the state of the economy. What three graphs would he choose, what does each indicate about the economy and why did he choose those graphs?

Graph 1: ______________________________

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Graph 2: ______________________________

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Graph 3: ______________________________

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Handout 1.5: Political Cartoon

Refer to the political cartoon above to answer the questions that follow.

A. What images are on the cartoon, and what do they represent?

B. Write several sentences explaining what this cartoon is depicting. Use relevant economic terms and concepts in your sentences.