

# Inflation and united states economy essay sample

[Finance](#), [Financial Analysis](#)



Economics is often called the “ science of decision making.” The decisions that economists analyze range from personal decisions such as how big a pizza to order or whether to buy or lease a new car to the decisions the federal government makes about things like the size of our military.

Economists use information about these, and other decisions, to develop indicators that can be used to determine the health of our economy. Just as a physician relies on indicators such as temperature, blood pressure and heart rate to determine the health of a patient, economists use indicators like gross domestic product growth, the unemployment rate and the rate of inflation to predict our nation’s economic health. How do economists make their forecasts about the United States economy?

In this lesson you will use the Web to retrieve up-to-date key economic statistics which will provide valuable hints about the state of the future economy. When the lesson is complete, you will have a new or better understanding of how economists predict our economic future. Pretend you are a partner in an economic forecasting firm called Acme Economic Forecasters (AEF). You and your partners have just received a letter from a business woman in Australia who is interested in moving her guava jelly business to the United States. She has asked you to prepare a report on the expected economic health of the United States economy for the next year. You and your AEF partners will need to do the following:

1. Make certain you can explain the three leading economic indicators: GDP, inflation rate, unemployment rate.
2. Gather data on the current state of the three leading economic indicators for the United States economy.

## PROCESS

In order to complete your client's report, you will need to complete the following tasks: A Pedestrian's Guide to the Economy ([www.amosweb.com/pdg](http://www.amosweb.com/pdg)) click " Random Walk Through Some Economic Statistics" Briefly (one-two sentences) describe each of the three leading economic indicators: Real GDP, inflation rate (also referred to as Consumer Price Index), and the unemployment rate. Include a description of the impact of each indicator on the nation's economic health.

[www.bea.gov](http://www.bea.gov). Click Gross Domestic Product. Click GDP News Release. Click Full Text and Release (right hand side). Scroll to Table 1 (Real GDP % change). Record the numbers for Real GDP change in the last 4 years: 2008 Q1 \_\_\_\_\_ Q2 \_\_\_\_\_ Q3 \_\_\_\_\_ Q4 \_\_\_\_\_

2009 Q1-5. 3Q2-. 3Q31. 4Q44. 0

2010 Q1 2. 3Q2 2. 2Q3 2. 6 Q4 2. 4

2011 Q1 . 1Q2 2. 2Q3 1. 3Q4 4. 1

- Circle highest increase

A recession is defined as the fall of Real GDP over two consecutive quarters (negative). Did the US enter into a recession in the time period above? What part of the business cycle are we in now (according to the numbers)?

[www.bls.gov](http://www.bls.gov) What is the current unemployment rate? Click the historical data- is it going up or down? What happened to the Unemployment Rate the last time we entered into a recession (Q2, 2001)? Go back to BLS home. Click on Unemployment (left margin), then National Unemployment Rate Click " Annual Averages: Unemployment Rate" Fill in the data for the following

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years. 2001\_\_\_\_2002\_\_\_\_2003\_\_\_\_2004\_\_\_\_ 2005\_\_\_\_ 2006\_\_\_\_  
2007\_\_\_\_2008\_\_\_\_2009\_\_\_\_2010\_\_\_\_ 2011\_\_\_\_ Circle the Highest rate  
and \*the lowest rate

www. bls. gov Click the Historical Data for Consumer Price index(right hand  
margin). Is the rate going up or down? [http://www.inflationdata.](http://www.inflationdata.com/inflation/inflation_rate/historicalinflation.aspx)

com/inflation/inflation\_rate/historicalinflation. aspx What were the inflation  
rates (average- last column) for the following years? 2001 2. 83 %2002 1. 59  
%2003 2. 27 %2004 2. 68 % 2005 3. 39 % 20063. 24 % 20072. 85 %2008 3.  
85 %2009 -0. 34 %2010 1. 64 % 2011 3. 16 %

When is the last time we experienced deflation (prices actually dropped- you  
will have to go back a few decades)? Since 1970, what year had the highest  
inflation rate? What was the rate? Compile these pieces into a  
coherent recommendation to Ms. Jones. Should she bring her guava jelly  
business to the United States? What is the outlook for the economic health of  
the nation? Type a Word document incorporating the leading economic  
indicators and the information Ms. Jones is interested in. Prepare a report or  
powerpoint for your client that includes: - at least one graph/chart for each  
of the three indicators. - a brief explanation of the status of that indicator.  
- a prediction for the health of the United States economy over the next 12  
months.

### Components of GDP

Determine if each of the items listed below should be included in GDP and  
under which component or components: Consumption, Investment,

Government, Exports or Imports. Circle ones that are counted, determine category on the left.

### Category

1. A stereo produced and sold in the US by a Japanese company \_\_\_\_\_
2. College tuition \_\_\_\_\_
3. Social Security payments \_\_\_\_\_
4. Microsoft stock purchased from Microsoft \_\_\_\_\_
5. A space shuttle launch \_\_\_\_\_
6. The purchase of a plane ticket to London on British Airways \_\_\_\_\_
7. The purchase of a US Treasury Bond by an individual \_\_\_\_\_
8. A new factory \_\_\_\_\_
9. The sale of a previously occupied house \_\_\_\_\_
10. A bottle of French wine, sold in the US \_\_\_\_\_
11. A television produced, but not sold. \_\_\_\_\_
12. A home cooked meal \_\_\_\_\_
13. A dinner at a restaurant \_\_\_\_\_
14. A computer produced in the US and sold in Canada \_\_\_\_\_
15. A new interstate \_\_\_\_\_

### Other Questions for Students

Given the following data (in billions of current dollars), calculate the current level of gross domestic product. | Consumption spending | \$7, 000 | | Social security payments | 500 | | Income tax receipts | 1, 000 | | Exports | 1, 100 | | Business purchases of new factories and equipment and changes in inventories | 1, 500 | | Federal government spending on goods and services |

550 | | Construction of new homes | 200 | | State and local spending on  
goods and services | 1, 300 | | Imports | 1, 500 | | Wages | 6, 000 |