

DISCUSSION QUESTION

Name:

Instructor:

Course:

In October 2009, the unemployment rate in the U.S. reached 10.0%. This was the highest unemployment rate in the U.S. in approximately 26 years and 0.5 percentage points higher than it was in June 2009. In spite of unemployment continuing to increase, the Great Recession was officially declared over in June 2009. Source: <http://data.bls.gov/timeseries/LNS14000000>

- a) How is it possible that U.S. unemployment continued to increase three months after the Great Recession had ended?
- b) Given that this disconnect can exist between when recessions are dated and when unemployment (or other economic indicators) improve, should the National Bureau of Economic Research (NBER) change the way they determine when recessions begin and end?

PEER GROUP PROBLEM SOLVING

Name:

Instructor:

Course:

Here are some data for a hypothetical economy. Use the information in the table below to answer the following questions.

Type of expenditures	\$ (billions)
Consumption expenditures	700.00
Government purchases of goods and services	350.00
Government payments to retirees	150.00
Government interest payments	100.00
Construction of new homes and apartments	100.00
Sales of existing homes and apartments	200.00
Exports	150.00
Imports	250.00
Business investment	200.00
Sales of used goods	40.00
Sales of intermediate goods	70.00
Nonmarket transactions	90.00

- a) What is the consumption component of GDP?
- b) What is the investment component of GDP?
- c) What is the government purchases component of GDP?
- d) What is the net exports component of GDP?
- e) What is the GDP for this economy?

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

Have students form groups of 4 to 6 students and consider the following questions.

In 1968, in a speech at the University of Kansas, Robert F. Kennedy said the following:

"Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things. Our Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities...

Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country. It measures everything in short, except that which makes life worthwhile."

Ask each group to write a short (1-2 paragraph) essay explaining whether they agree or disagree with Robert F. Kennedy's assessment of GDP, focusing in particular on the last statement.

If they agree with his assessment, do they believe GDP should be changed or completely scrapped? If it should be changed, how should it be changed? If they disagree with his assessment, have students explain why GDP is an important measure despite all of the listed shortcomings.

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

In October 2009, the unemployment rate in the U.S. reached 10.0%. This was the highest unemployment rate in the U.S. in approximately 26 years and 0.5 percentage points higher than it was in June 2009. In spite of unemployment continuing to increase, the Great Recession was officially declared over in June 2009. Source: <http://data.bls.gov/timeseries/LNS14000000>

- a) How is it possible that U.S. unemployment continued to increase three months after the Great Recession had ended?

The NBER dates recessions based on changes in GDP; an increase in unemployment is not a measure of recession, although it is a correlate. Recessions are measured as two or more consecutive quarters of negative economic growth. There is typically a lag of several months between a return to positive GDP growth and improvement in the unemployment rate.

- b) Given that this disconnect can exist between when recessions are dated and when unemployment (or other economic indicators) improve, should the NBER change the way they determine when recessions begin and end?

The recession dates are not intended to serve as benchmarks for all economic indicators. The measurement is simply a gauge of the changes to GDP. Recessionary dates provide an indication of when the economy has “turned the corner” (or passed the trough), but individuals should not expect that all economic indicators will change according to when the NBER officially dates recessions.

Peer Group Problem Solving

Here are some data for a hypothetical economy. Use the information in the table below to answer the following questions.

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Consumption expenditures	700.00
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Government payments to retirees	150.00
Government interest payments	100.00
Construction of new homes and apartments	100.00
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Exports	150.00
Imports	250.00
Business investment	200.00
Sales of used goods	40.00
Sales of intermediate goods	70.00
Nonmarket transactions	90.00

- a) What is the consumption component of GDP?

Consumption expenditures = \$700.00

- b) What is the investment component of GDP?
Business investment = \$200.00; Construction of new homes and apartments = \$100.00
Investment component = \$300.00
- c) What is the government purchases component of GDP?
Government purchases of goods and services = \$350.00
- d) What is the net exports component of GDP?
Exports = \$150.00; Imports = \$250.00;
Net exports = \$150.00 - \$250.00 = -\$100.00
- e) What is the GDP for this economy?
 $GDP = C + I + G + (X - M)$
 $GDP = \$700 + \$300 + \$350 + (\$150 - \$250)$
 $GDP = 1,250$

In-Class Experiment / Active Exercise

Have students form groups of 4 to 6 students and consider the following questions.

In 1968, in a speech at the University of Kansas, Robert F. Kennedy said the following:

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Ask each group to write a short (1-2 paragraph) essay explaining whether they agree or disagree with Robert F. Kennedy's assessment of GDP, focusing in particular on the last statement.

If they agree with his assessment, do they believe GDP should be changed or completely scrapped? If it should be changed, how should it be changed? If they disagree with his assessment, have students explain why GDP is an important measure despite all of the listed shortcomings.

The purpose of this activity is to get students to consider the relevance of GDP as well as some of its shortcomings. Approximately ten minutes should be sufficient to complete their essays.

Depending on class size, there will likely be groups that both agree and disagree with RFK's assessment. Ask one group that agrees and one group that disagrees to read their essays in front of the class.

After the essays have been read, the instructor should act as moderator and pose questions to the group or the entire class. For example, for groups that agree with RFK's assessment, ask them if his comments reflect their personal feelings about their individual or family income. For those that disagree you could ask if children's health and education are not worthwhile metrics to gauge the overall health of the economy.

If successful, students should end with the belief that GDP is an important single measure of economic activity, but does not and is not intended to measure all factors that improve quality of life.

For more in-class experiment and active learning ideas, visit www.econedactive.com.