

Using NewsHour Extra Feature Stories

STORY

Stagflation Threatens U.S. Economy, 02/25/08

http://www.pbs.org/newshour/extra/features/us/jan-june08/stagflation_2-25.html

Estimated Time: One 45-minute class period with possible extension

Student Worksheet (reading comprehension and discussion questions without answers)

PROCEDURE

1. WARM UP

Use initiating questions to introduce the topic and find out how much your students know.

2. MAIN ACTIVITY

Have students read NewsHour Extra's feature story and answer the reading comprehension and discussion questions on the student handout.

3. DISCUSSION

Use discussion questions to encourage students to think about how the issues outlined in the story affect their lives and express and debate different opinions.

INITIATING QUESTIONS

1. Is the economy in good shape or bad shape? How can you tell?

2. What is inflation?

3. What are some items that you buy often? (food, clothing, music?) Have prices been going up recently or down?

READING COMPREHENSION QUESTIONS – **Student Worksheet**

1. What is stagflation?

ANSWER

Recent economic indicators point to the possibility of stagflation -- a slowdown in economic activity combined with rising prices not seen since the 1970s.

This potent combination has the potential to create a serious negative effect on both the U.S. and worldwide economies.

2. What is a recession?

ANSWER

A recession, which is defined by at least a two-month period of negative growth in the economy, could already be a reality in some parts of the U.S., financial experts say.

3. What are some indicators that might point to a recession?

ANSWER

Important economic indicators, like a rise in the number of people applying for unemployment benefits and a fall in production levels at factories, added to the evidence that the U.S. economy is shrinking

4. What can the government do about a recession?

ANSWER

Concern in the business and government sectors about a possible recession have hurt overall confidence in the economy and spurred different arms of the federal government to take action to encourage new growth.

Congress and President Bush have already approved a \$168 billion economic stimulus package that will send out tax rebate checks to millions of Americans, in the hopes they will spend that money and help the economy rebound.

The other tool the federal government has been using is its control over interest rates or the rates banks charge to loan money. The U.S. Central bank, the Federal Reserve, can lower interest rates to encourage people to borrow money.

5. What has happened to the price of food and medicine?

ANSWER

One downside of lowering interest rates to increase spending and putting more money into the economy is that prices can rise.

Consumer prices rose by 0.4 percent in January, led by increases in the prices of food, energy and health care.

Prices for vegetables, fruits, poultry and pork all showed big increases, in part because of the rising demand for corn, which is used to make ethanol, and is seen as an environmentally-friendly alternative for gasoline.

In addition this week, the price of oil hit record highs—a barrel cost more than \$100 for the first time in history.

Medical costs also spiked: prescription drug prices shot up by 0.7 percent, the biggest rise in a year, while hospital prices were up by 1 percent.

6. How did inflation or stagflation affect the presidential elections of 1952, 1960, 1980?

ANSWER

The problem of inflation has been a potent political issue as far back as Dwight Eisenhower's presidential run in 1952. John F. Kennedy also criticized the rising cost of living in campaign ads in 1960.

Stagflation, the mix of recession and inflation, hit most of the developed world and the United States in the 1970s. President Richard Nixon was so concerned about 4 percent inflation in 1971 that he imposed wage and price controls to reign in it.

Stagflation continued through the decade, and the inflation was more than 13 percent in 1980. It became a powerful political tool for Ronald Reagan in his bid for the White House and helped him win his first presidential election.

DISCUSSION QUESTIONS (more research might be needed)

1. Does stagflation concern you? Why or why not?

2. How does inflation affect your family? Who does it affect the most? Ask the person who buys food for the household if they've noticed any changes? What would they do differently if prices rose quickly and dramatically?

3. Would you notice if the price of your favorite snack went up by 5 cents? 20 cents? A dollar? Think about items such as clothing, music, school supplies. If the prices of everything went up, which things would you stop buying first? Which items would you still buy? What do your answers say about the economy? Compare your answers to the rest of the class. Which parts of the economy are most vulnerable of the price if everything goes up?

4. Visit your local mall or grocery store and talk to the store owners about prices. Are prices going up or down? What are the business owners' explanations for the price changes of their specific products?

Extension Activity

Have students write a 300-500 word essay on this topic providing clear examples. Send your completed editorial to NewsHour Extra (extra@newshour.org). Exceptional essays might be published on our Web site.