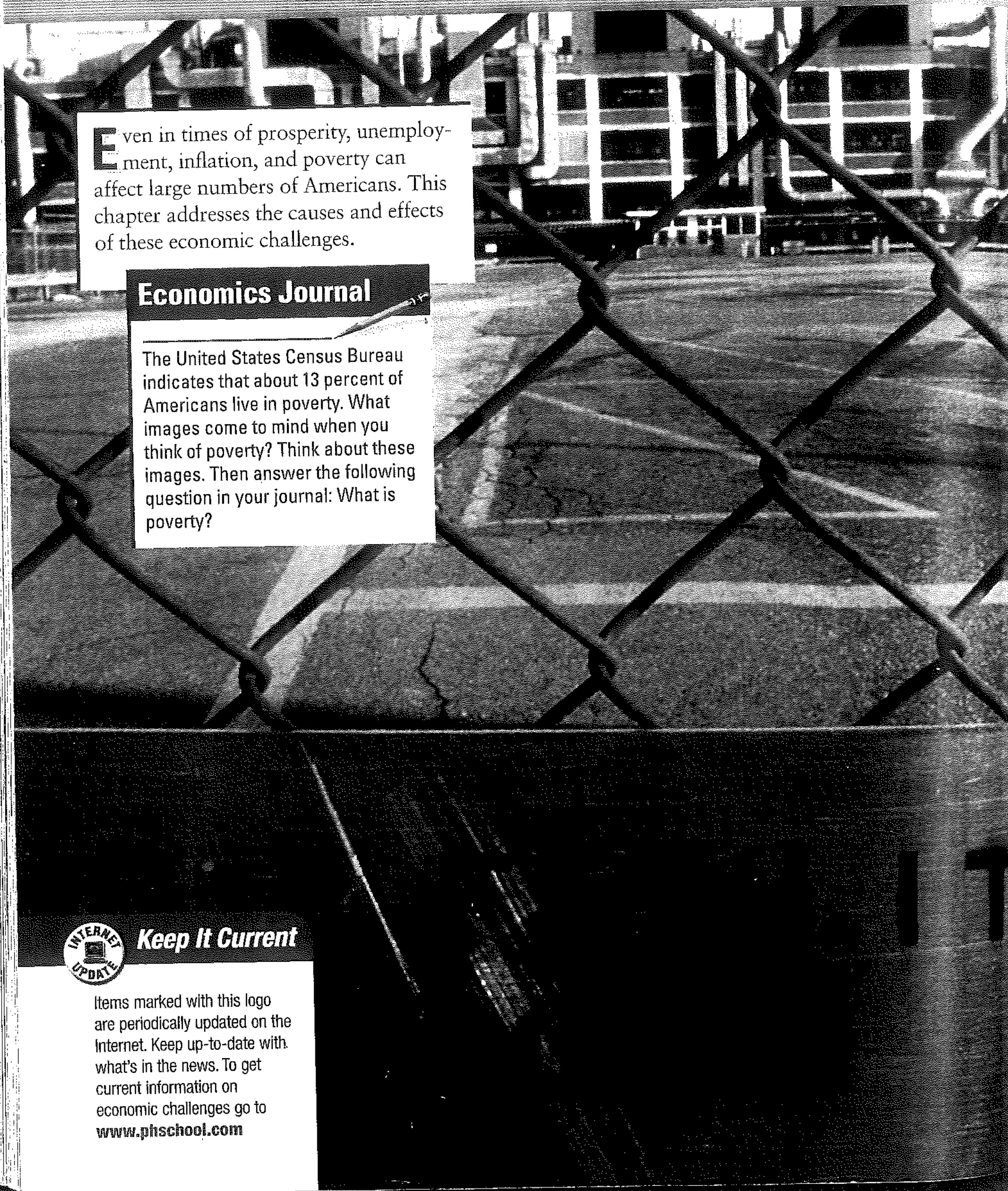
Chapter 13 Economic Challenges



Even in times of prosperity, unemployment, inflation, and poverty can affect large numbers of Americans. This chapter addresses the causes and effects of these economic challenges.

Economics Journal

The United States Census Bureau indicates that about 13 percent of Americans live in poverty. What images come to mind when you think of poverty? Think about these images. Then answer the following question in your journal: What is poverty?

Keep It Current

Items marked with this logo are periodically updated on the Internet. Keep up-to-date with what's in the news. To get current information on economic challenges go to **www.phschool.com**

Section 1 Unemployment

Preview

Objectives

After studying this section you will be able to:

1. **Describe** frictional, seasonal, structural, and cyclical unemployment.
2. **Describe** how full employment is measured.
3. **Explain** why full employment does not mean that every worker is employed.

Section Focus

Even in good economic times, unemployment affects millions of Americans. The unemployment rate provides an important clue to the health of the entire economy.

Key Terms

frictional unemployment
seasonal unemployment
structural unemployment
cyclical unemployment
census
unemployment rate
full employment
underemployed
discouraged worker

In the late 1990s and early 2000s, unemployment in the United States hit record lows. Nevertheless, millions of Americans were looking for work, trying their best to get by on limited funds while they searched for a new job.

Unemployment, however, is not just a personal issue. It is an issue for the national economy. Economists can measure how healthy the economy is at any given time by counting the number of people who are unemployed. Congress, the President, and other policymakers pay close attention to these statistics so they can take the necessary action to get people back to work.

Economists look at four basic kinds of unemployment: frictional, seasonal, structural, and cyclical. The various kinds of unemployment have different effects on the economy as well as on the people who are unemployed.

Frictional Unemployment

Unemployment always exists, even in a booming economy. **Frictional unemployment** occurs when people take time to find a job. For example, people might change jobs, be laid off from their current jobs, need some time to find the right job after they finish their schooling, or take time off from working for a variety of other reasons. In the following examples Hannah, Jorge, and Liz are all considered frictionally unemployed.

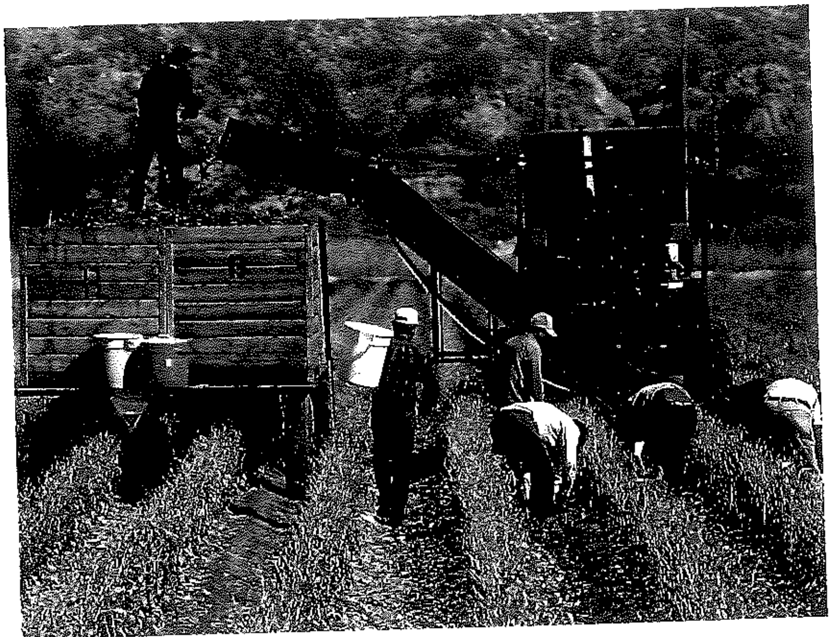
- Hannah was not satisfied working as a nurse in a large hospital. Last month she left her job to begin looking for a position at a small health clinic.
- Since Jorge graduated from law school three months ago, he has been interviewing with various law firms to find the one that best suits his needs and interests.
- Liz left her sales job two years ago to care for an aging parent. Now she is trying to return to the work force.

None of these three people found work immediately after beginning his or her search. While they are looking for work, they are considered frictionally unemployed. In an economy as large and diverse as that of the United States, economists expect to find many people in this category.

frictional unemployment *unemployment that occurs when people take time to find a job*

Seasonal Unemployment

Gregory is a brick mason for a small construction company in the northeastern United States. Every winter Gregory's



▲ **Seasonal unemployment affects migrant farm workers, who can be without work once the harvest season is over.**

seasonal unemployment *unemployment that occurs as a result of harvest schedules or vacations, or when industries slow or shut down for a season*

structural unemployment *unemployment that occurs when workers' skills do not match the jobs that are available*

employer lays off all seven of his employees when cold weather forces an end to outdoor work. In the spring, he hires the workers back again to begin a new construction season. Gregory's yearly pattern of steady work followed by a predictable period of unemployment marks him as a seasonal worker.

In general, **seasonal unemployment** occurs when industries slow or shut down for a season or make seasonal shifts in their production schedules. It can also occur as a result of harvest schedules or vacations. When this school year ends, you or your friends may need some time to find the perfect summer job. If so, economists will count you as seasonally unemployed.

As with frictional unemployment, economists expect to see seasonal unemployment throughout the year. Government policymakers do not take steps to prevent this kind of unemployment, because it is a normal part of a healthy economy.

Still, the lives of seasonally unemployed workers can be extremely difficult. Migrant agricultural workers, for example, travel throughout the country to pick fruits and vegetables as various crops come into season. They know that their work will likely end when winter arrives. Migrant workers can also have periods of unemployment even during harvest season, depending on weather patterns that year. Heat, cold, rain, and drought can all ruin harvest schedules by causing fruits and vegetables to ripen sooner or later than expected. Instead of moving smoothly from crop to crop, migrant workers might lose work time waiting for a crop to be ready for picking.

Structural Unemployment

As you read in Chapter 9, the structure of the American economy has changed over time. Two centuries ago, people needed basic farming skills to survive. As the country developed an industrial economy, farm workers moved to urban areas to work in factories. Today, service industries are rapidly replacing manufacturing industries, and information services are expanding at breakneck speed.

All these shifts lead to upheavals in the labor market. When the structure of the economy changes, the skills that workers must have in order to succeed in the economy also change. Workers who lack the necessary skills lose their jobs. **Structural unemployment** occurs when workers' skills do not match the jobs that are available.

▶ **With the invention of electric refrigerators, workers no longer made home deliveries of ice. The displacement of these workers is an example of structural unemployment.**

There are five major causes of structural unemployment.

- *The development of new technology* New inventions and ideas often push out older ways of doing things. For example, after the compact disc was introduced in 1982, fewer people bought phonograph records. Many workers who produced records and record players had to look for work in another field.
- *The discovery of new resources* New resources replace old resources and the industries that provide them. The discovery of petroleum in Pennsylvania in 1859 severely hurt the whale-oil industry and put many whaling ship crews out of work.
- *Changes in consumer demand* Consumers often stop buying one product in favor of another. Many people today favor sneakers and other sports shoes over more traditional kinds of shoes. As a result, traditional shoemaking jobs have declined.
- *Globalization* Recent trends in the world economy include a shift from local to global markets. As a result, companies often relocate jobs or entire facilities to another country. Celia, for example, had spent many years working on an automobile assembly line in Michigan. Then, in the late 1990s, the removal of trade barriers between the countries of North America led her company to move much of its auto assembly work to Mexico, where labor is less expensive. Celia lost her job.
- *Lack of education* People who drop out of school or fail to acquire the minimum skills needed for today's job market may find themselves unemployed, employed part-time, or stuck in a low-wage job. For example, Martin only barely managed to graduate from high school. When he was hired as a clerk by a local clothing store, he had trouble using the computerized checkout register. The store manager fired Martin after just two months because Martin lacked the skills needed for the job.

Policymakers in the 1990s recognized that computer technology, globalization, and other structural changes threatened the futures of many workers. As a result, they developed job-training programs to help workers gain new skills, especially computer skills.

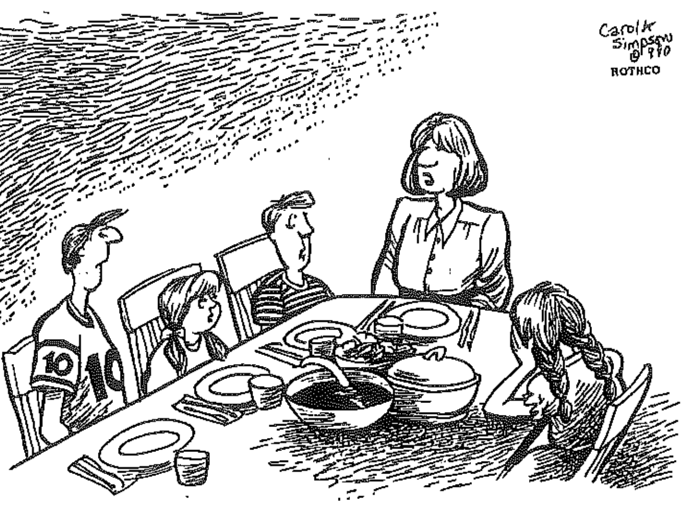
Retraining takes a long time, however, and the new skills do not assure the trainees a high-wage job. Some companies have begun offering their own training programs. In this way, they can tailor the training to fit their exact labor needs. This approach gives more trainees the specific skills that can make them valued employees.

Cyclical Unemployment

Unemployment that rises during economic downturns and falls when the economy improves is called **cyclical unemployment.** During recessions, or downturns in the business cycle, the demand for goods and services drops. The resulting slowdown in production causes the demand for labor to drop as well, and companies begin to lay off employees. Many of these laid-off employees will be rehired when the recession ends and the business cycle resumes an upward trend. Although economists expect cyclical unemployment, it can severely

cyclical unemployment *unemployment that rises during economic downturns and falls when the economy improves*

◀ Cyclical unemployment can affect workers in industries sensitive to changes in the business cycle, such as workers in the steel industry.



"Our days of living from pay check to pay check are over . . . I was laid-off."

▲ **What might be the effects of the mother's job loss on her family?**

strain the economy and greatly distress the unemployed.

The most damaging example of cyclical unemployment in the twentieth century was the Great Depression. During the Great Depression, one out of every four workers was unemployed. Many remained jobless for years. To help these unemployed workers, President Franklin D. Roosevelt proposed, and Congress passed, the Social Security Act of 1935. In addition to providing payments for people who cannot support themselves, this act established a program of unemployment insurance. Today, this insurance provides weekly payments to workers who have lost their jobs. The payments usually provide about half of a worker's lost wages each week for a limited amount of time.

Measuring Employment

The amount of unemployment in the nation is an important clue to the health of the economy. For this reason, the government keeps careful track of how many people are unemployed, and why.

The United States Bureau of the Census conducts a monthly census relating to the size and other characteristics of the population. (A **census** is an official count of the population.) Each month, the Bureau of Labor Statistics (BLS), a branch of the U.S. Department of Labor, polls a sample of the population. This sample, consisting of about 50,000 families, is designed to represent the entire population of the United States. The interviewers poll families about employment during that month. From this poll, called the Current Population Survey, the BLS identifies how many people are employed and how many are unemployed. Using these numbers, the BLS computes the **unemployment rate,** or the percentage of the nation's labor force that is unemployed.

census *an official count of the population*

unemployment rate *the percentage of the nation's labor force that is unemployed*

Determining the Unemployment Rate

As you read in Chapter 9, the labor force is composed of civilians age 16 and older who have a job or are actively looking for a job. To determine the unemployment rate, BLS officials add up the number of employed and unemployed people. That figure equals the total labor force. Then they divide the number of unemployed people by the total labor force and multiply by 100. As Figure 13.1 shows, the result is the percentage of people who are unemployed.

For example, in April 2001, the Current Population Survey showed that 135.3 million people were employed, and 6.4

Figure 13.1 Calculating the Unemployment Rate

To calculate the unemployment rate, use the following formula:

Number of people unemployed **divided by** number of people in the civilian labor force **multiplied by** 100

For example,
if the number of people unemployed = 6.4 million and the number of people in the civilian labor force = 141.7 million

then,
$6.4 \div 141.7 = .045$
$.045 \times 100 = 4.5$

Therefore,
the unemployment rate is 4.5%.

BUILDING KEY CONCEPTS

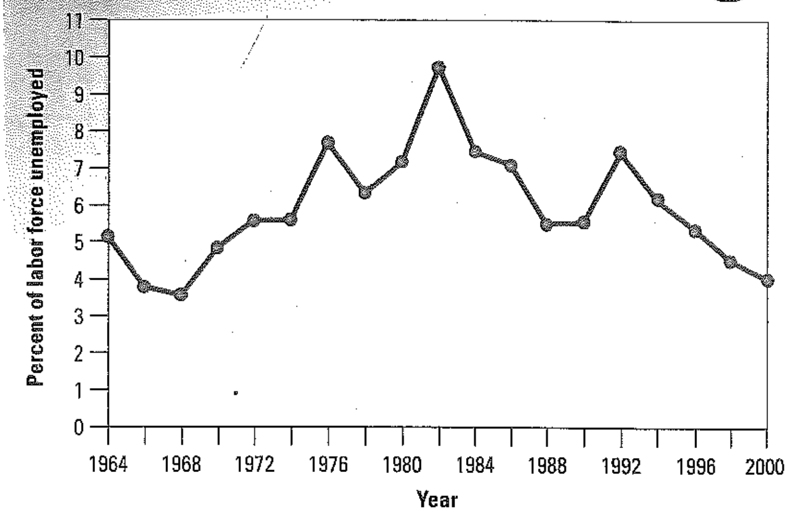
To calculate the unemployment rate, follow the steps above. **Unemployment In 1982, the civilian labor force was 110.2 million, and 10.68 million people were unemployed. What was the unemployment rate?**

million were unemployed. The total labor force, therefore, was 141.7 million. Dividing 6.4 million by 141.7 million, and then multiplying the result by 100, yields an unemployment rate of 4.5 percent for that month.

When you see the unemployment rate for a particular month, it has usually been "seasonally adjusted." This means that the rate has been increased or decreased to take into account the level of seasonal unemployment. Seasonally adjusting unemployment levels allows economists to compare unemployment rates from month to month in order to detect changing economic conditions.

The unemployment rate is only an average for the nation. It does not reflect differences from region to region, state to state, or even city to city. Some areas, such as the coal-mining region of Appalachia in the southeastern United States, have long had a higher-than-average unemployment rate. The BLS and individual state agencies therefore establish unemployment rates for states and other geographic areas. These rates help pinpoint trouble areas on which policymakers can focus attention.

Figure 13.2 Unemployment Rate, 1964–2000



Source: U.S. Department of Labor

Between 1964 and 2000, the unemployment rate peaked at an alarming 9.7 percent in 1982. **Unemployment In what years was the unemployment rate between 4 and 6 percent, the rate considered normal for a healthy economy?**

Full Employment

Look at Figure 13.2. Notice the low levels of unemployment in the late 1960s and late 1990s. Do you think it is possible for the economy to reach an unemployment rate of 0 percent? As you read earlier, zero unemployment is not an achievable goal in a market economy, even under the best of circumstances. Economists generally agree that in an economy that is working properly, an unemployment rate of around 4 to 6 percent is normal. Such an economy would still experience frictional, seasonal, and structural unemployment. In other words, **full employment** is the level of employment reached when no cyclical unemployment exists.

Underemployment

Full employment means that nearly everyone who wants a job has a job, but are all those people satisfied with their jobs? Not necessarily. Some people working at low-skill, low-wage jobs may be highly skilled or educated in a field with few opportunities. They are **underemployed**, that is, working at a job for which they are over-qualified, or working part-time when they desire full-time work.

For example, Jim was a philosophy major in college. He went on to earn a graduate degree in philosophy. When he left school, Jim found that although the economy was booming, he could not find

full employment *the level of employment reached when there is no cyclical unemployment*

underemployed *working at a job for which one is over-qualified, or working part-time when full-time work is desired*

Global Connections

A Shorter Workweek During the early months of 1998, protests erupted throughout France. The reason—the nation's high unemployment rate. In response, the French government signed into law a shorter, 35-hour work-week that went into effect in January 2000. This new workweek, down from the standard 39 hours a week, is intended to create more than 200,000 new jobs and ease the country's 12.5 percent unemployment rate. Many economists, however, are skeptical of this solution. **How would a mandatory shorter workweek affect employment?**

THE WALL STREET JOURNAL.
CLASSROOM EDITION

In the News *As the following excerpt from a* Wall Street Journal Classroom Edition *article shows, no matter what the job market, grades top the list of key measures employers use when they make hiring decisions.*

"'Employers will always look first at grades,' says Rachel A. Seff, director of the career services center at the University of Houston business school. 'They still believe your GPA is a measure of how well you've developed the skills they're hiring you to use on the job.' Other key gauges are practical work experience and involvement in student organizations."

discouraged worker *a person who wants a job but has given up looking*

jobs in which he could apply his knowledge of philosophy. Jim had many job choices, but none of them paid very well, and none of them challenged his mind. He was underemployed.

So was Celia, the auto worker described earlier. After her company sent her auto-assembly job to Mexico, she could not find a similar job in the local area, so she was forced to take a low-skill, low-wage job.

Underemployment also describes the situation of people who want a permanent, full-time job but have not been able to find one. Many part-time workers and seasonal workers fit this category.

Discouraged Workers

Some people, especially during a long recession, give up hope of finding work. These **discouraged workers** have stopped searching for employment and may need to rely on other family members or savings to support them. Discouraged workers, although they are without jobs, do not appear in the unemployment rate determined by the Bureau of Labor Statistics because they are not actively looking for work.

Effects of Terrorism

By late 2001, the employment picture had changed from the low levels of unemployment of the late 1990s and 2000. Even before the September 11 attacks on the World Trade Center and the Pentagon, the economic slowdown had brought U.S. unemployment to a four-year high. Studies estimate that the terrorist attacks cost the country an additional 1.5 to 2 million jobs.

Many of the lost jobs were in travel and tourism. The largest drop-off was in air transportation, accounting for about 20 percent of jobs lost.

The area of New York City around the World Trade Center site was especially hard-hit, with New York City losing some 150,000 jobs. Employment in New York City and in the nation as a whole is expected to improve as the economy returns to normal, and New York begins rebuilding.

Section 1 Assessment

Key Terms and Main Ideas

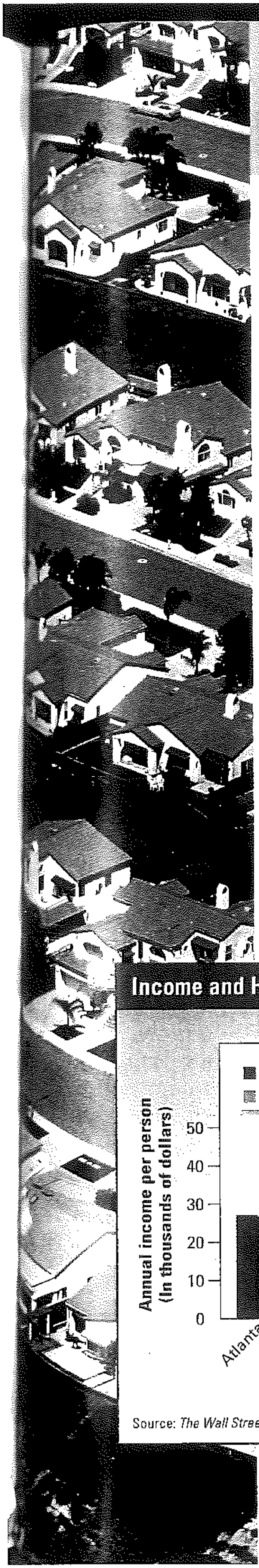
1. How do **frictional** and **structural unemployment** differ? Give an example of each.
2. When does **cyclical unemployment** take place?
3. How is the **unemployment rate** calculated?
4. Why isn't **full employment** the same as zero unemployment?

Applying Economic Concepts

5. *Math Practice* Determine the unemployment rate for a month in which 125.4 million people were employed and 7.3 million people were unemployed.
6. *Critical Thinking* After a car accident, Santo needed six months to recover. Since his recovery, he has spent the last year trying to find work in his former occupation, medical technology. So far, he has failed, even though the economy is booming. Which of the four kinds of unemployment best describes Santo's situation? Explain.
7. *Try This* Create two fictional workers, one a discouraged worker and one an underemployed worker. Write a paragraph explaining each person's employment situation. Include why these workers are discouraged or underemployed, their current financial situation, and their view of the future.

Take It to the NET

The Bureau of the Census and the Bureau of Labor Statistics provide information about unemployment rates. Find the most recent data on national unemployment. Is there a trend upward or downward in the unemployment rate, or has the rate been steady? Use the links provided in the Social Studies area at the following Web site for help in completing this activity.
www.phschool.com



Skills for **LIFE**

Critical Thinking | **Graphs and Charts** | Social Studies | Technology

Analyzing Bar Graphs

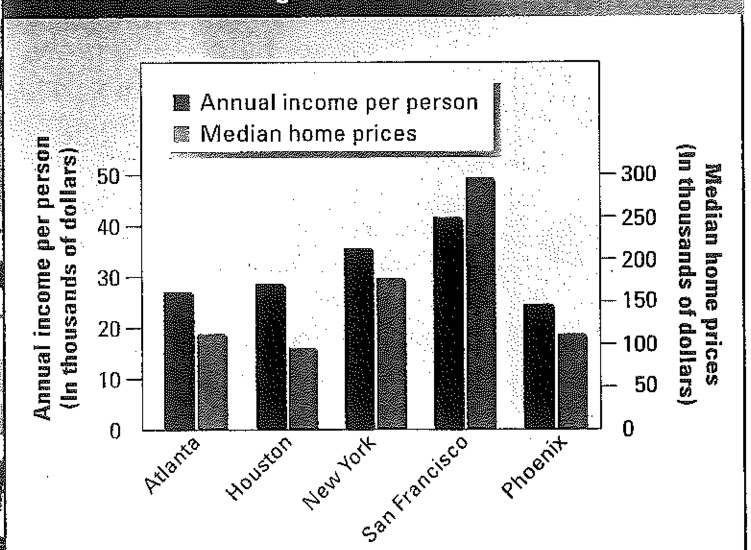
A bar graph is a useful way to present information visually and to condense large amounts of data. Bar graphs allow us to see the relationships between two or more sets of data, and to discern trends. Use the following steps to study and analyze the bar graph below.

1. **Identify the subject.** Bar graphs show one or more sets of data for a small group of items, such as cities, countries, or people. The title, axis labels, and key tell the reader what the graph depicts. (a) What is the title of the graph below? (b) What do the bars represent?

2. **Read the data.** While some graphs measure all data on the same scale, this bar graph uses two different scales for the *y*-, or vertical, axis. Two different scales are needed to show home prices and average income. Per capita income is shown on the left scale, while home prices are shown on the right scale. (a) What is the per capita income in Houston? (b) Which city has the lowest housing costs? (c) How much does the average house cost in this city?

3. **Interpret the graph.** Look at the data and consider what you can learn from the bar graph. (a) Judging from the three cities with the least expensive houses, what conclusion can you draw about the relationship between geographic location and housing costs? (b) What does it mean if the housing bar is much taller than the income bar? (c) Compare the average income and housing cost in Phoenix with those in Houston. Which city is relatively cheaper to live in (housing costs divided by average per capita income)?

Income and Housing Costs in U.S. Cities



Source: *The Wall Street Journal Almanac*

Additional Practice

Construct a bar graph using two sets of recent data on the economies of the United States, Canada, Germany, and Japan, such as inflation rate, income per capita, or unemployment rate. What can you infer from your bar graph about these economies? What other statistics might you have used instead?

Section 2 Inflation

Preview

Objectives

After studying this section you will be able to:

1. **Explain** the effects of rising prices.
2. **Understand** the use of price indexes to compare changes in prices over time.
3. **Identify** the causes and effects of inflation.
4. **Describe** recent trends in the inflation rate.

Section Focus

Economists use indexes to keep track of rising prices and to calculate the inflation rate. The level of inflation in the economy can affect wages, purchasing power, and other aspects of everyday life.

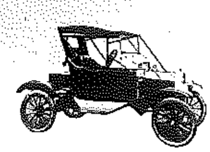
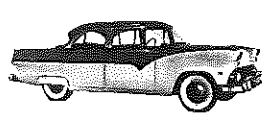
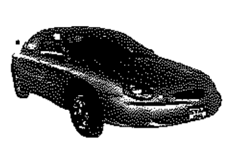
Key Terms

inflation
purchasing power
price index
Consumer Price Index (CPI)
market basket
inflation rate
core inflation rate
hyperinflation
quantity theory
demand-pull theory
cost-push theory
wage-price spiral
fixed income
deflation

inflation *a general increase in prices*

You may have heard your grandparents or other relatives talk about the "good old days," when you could get an ice cream for a nickel or a movie ticket for a quarter. They aren't kidding. Prices really were much lower years ago. On the other hand, although prices have generally risen, wages have risen, too. If you asked your older relatives how much they earned when they were young, you might find that it was difficult to scrape up that quarter for the movie ticket. In this section, you will learn why prices have risen, how economists measure their rise, and the effects of rising prices across the economy.

Figure 13.3 Effect of Inflation on Auto Prices

	1908	1955	2001
			
Cost	$850	$3,030	$19,075
Hours worked	4,696	1,638	1,346

Source: Federal Reserve Bank of Dallas

BUILDING KEY CONCEPTS

Inflation has driven up the price of an automobile even though the number of hours a worker must work to earn the money to pay for an automobile has decreased. **Income Why can more people afford automobiles today than they could in 1908, despite much higher auto prices?**

The Effects of Rising Prices

Josephine and Jack Barrow have owned the same house for 50 years. Recently, they had a real estate agent estimate the house's present market value. The Barrows were astounded. They had bought the house for $12,000, and now it was worth nearly $150,000—a rise in value of more than 1,100 percent.

How could the value of a house, or anything else, increase so much? The main reason is inflation. **Inflation** is a general increase in prices. Over the years prices rise and fall, but in the American economy, they have mostly risen. Since World War II, real estate prices have risen greatly.

The Barrows were pleased that they could get so much money for their house. They also realized that they could not buy a similar house in their area for $12,000 or even $120,000. Inflation had raised the prices of all houses, just as it had also raised wages and the price of most other goods and services.

Another way to look at the Barrows' situation is that inflation had shrunk the value, or purchasing power, of the Barrows' money. **Purchasing power** is the ability to purchase goods and services. As prices rise, the purchasing power of money declines. That is why $12,000 can buy much less now than it could 50 years ago.

Price Indexes

Housing costs are just one element that economists consider when they study inflation. The economy has thousands of goods and services, with millions of individual prices. How do economists compare the changes in all these prices in order to measure inflation? The answer is that they do not compare individual prices; instead, they compare price levels. As you read in Chapter 12, price level is the cost of goods and services in the entire economy at a given point in time.

To help them calculate price level, economists usually turn to a price index. A **price index** is a measurement that shows how the average price of a standard group of goods changes over time. A price index produces an average that economists can compare to earlier averages to see how much prices have changed over time.

Using Price Indexes

Price indexes help consumers and businesspeople make economic decisions. For example, after Marina read in the newspaper that consumer prices had been rising, she decided to increase the amount of money she had been saving to buy a new car. She wanted to be sure that when the time came to buy the car, she would have saved enough money for her purchase.

The government also uses indexes in making policy decisions. A member of Congress, for example, might push for an increase in the minimum wage if she thinks inflation has shrunk purchasing power.

Figure 13.4 CPI Market Basket Items

Category	Examples
Food and drinks	cereals, coffee, chicken, milk, restaurant meals
Housing	rent, homeowners' costs, fuel oil
Apparel and upkeep	men's shirts, women's dresses, jewelry
Transportation	airfares, new and used cars, gasoline, auto insurance
Medical care	prescription medicines, eye care, physicians' services
Entertainment	newspapers, toys, musical instruments
Education and communication	tuition, postage, telephone services, computers
Other goods and services	haircuts, cosmetics, bank fees

Source: Bureau of Labor Statistics

BUILDING KEY CONCEPTS

The CPI market basket helps economists calculate the average inflation rate for the country. **Inflation Why might an individual family experience an inflation rate that is higher or lower than the national average?**

The Consumer Price Index

Although there are several price indexes, the best-known index focuses on consumers. **The Consumer Price Index (CPI)** is computed each month by the Bureau of Labor Statistics (BLS). The CPI is determined by measuring the price of a standard group of goods meant to represent the "market basket" of a typical urban consumer. This **market basket** is a representative collection of goods and services. By looking at the CPI, consumers, businesses, and the government can compare the cost of a group of goods this month with what the same or a similar group cost months or even years ago.

As you can see from Figure 13.4, the CPI market basket is divided into eight categories of goods and services. Figure 13.4 shows these categories and a few examples of the many items in each group.

About every 10 years, the items in the market basket are updated to account for shifting consumer buying habits. The BLS determines how the market basket should change by conducting a Consumer Expenditure Survey. The BLS conducted one such survey from 1993 to 1995. For

purchasing power *the ability to purchase goods and services*

price index *a measurement that shows how the average price of a standard group of goods changes over time*

Consumer Price Index (CPI) *a price index determined by measuring the price of a standard group of goods meant to represent the "market basket" of a typical urban consumer*

market basket *a representative collection of goods and services*

inflation rate *the percentage rate of change in price level over time*

core inflation rate *the rate of inflation excluding the effects of food and energy prices*

each of these years, 4,800 families provided information on their spending habits. Another 4,800 families kept diaries in which they noted everything they purchased during a two-week period for each of the years. This process resulted in the list of market basket items used today.

Price Indexes and the Inflation Rate

Economists also find it useful to calculate the **inflation rate,** or the percentage rate of change in price level over time. Although there are other price indexes, the CPI is the index you will most often hear about, so we will focus on it. How does the BLS determine the CPI and use it to calculate the inflation rate?

Determining the CPI

To determine the CPI, the BLS establishes a base period to which it can compare current prices. Currently, the base period is 1982–1984. The cost of the market basket for that period is assigned the index number 100. Every month, BLS representatives update the cost of the same market basket of goods and services by rechecking all the prices. Each updated cost is compared with the base-period cost to determine the index for that month. As costs rise, the index rises.

BUILDING KEY CONCEPTS

To calculate the inflation rate, follow the steps shown in the chart.
Inflation **CPI for 1979 was 72.6. For 1980, CPI was 82.4. Calculate the inflation rate for 1980.**

Figure 13.5 Calculating the Inflation Rate

To calculate the inflation rate, use the following formula:

CPI for Year A **minus** CPI for Year B
divided by CPI for Year B
multiplied by 100

For example,
if the CPI for 1999 (Year A) = 166.6
and the CPI for 1998 (Year B) = 163

then,

$$166.6 - 163 = 3.6$$
$$3.6 \div 163 = .022$$
$$.022 \times 100 = 2.2$$

Therefore,
the inflation rate for 1999 was 2.2%.

The BLS determines the CPI for a given year using the following formula.

$$\text{CPI} = \frac{\text{updated cost}}{\text{base period cost}} \times 100$$

For example, suppose the market basket cost \$200 during the base period and costs \$330 today. The CPI for today would be:

$$\frac{\$330}{\$200} \times 100 = 165$$

In this example, the CPI rose from 100 in the base period to 165 today.

Calculating the Inflation Rate

To figure the inflation rate from one year to the next, you would use the steps shown in Figure 13.5. You can also determine the rate of inflation from month to month using the same basic formula that you see in this chart. Just substitute "Month A" and "Month B" for "Year A" and "Year B."

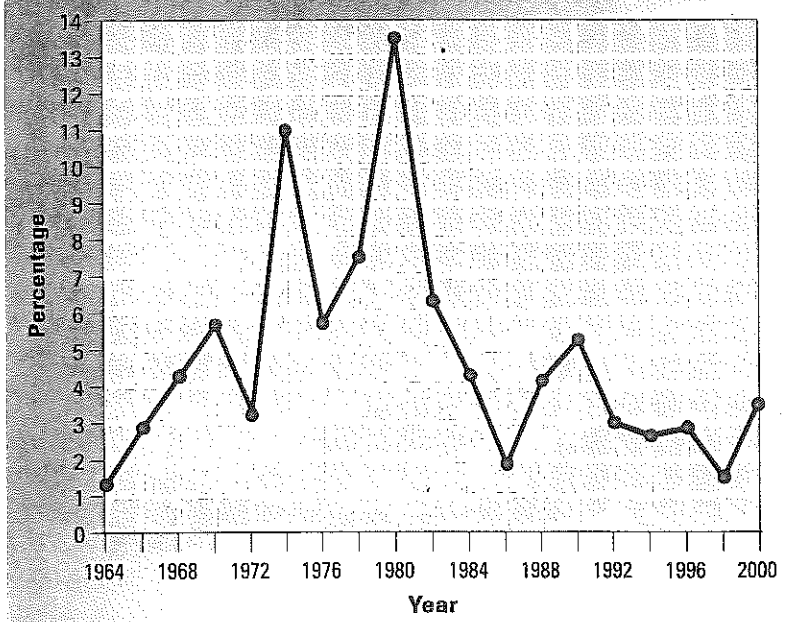
Types of Inflation

Inflation rates in the United States have changed greatly over time. From Figure 13.6, you can see that the inflation rate stayed fairly low in the 1960s. When the inflation rate stays low and averages between 1 and 3 percent, it does not typically cause problems for the economy. Businesses and governments can plan in this environment. However, economists have noted that when the inflation rate exceeds 5 percent, the inflation rate itself becomes unstable and unpredictable. This makes planning very difficult.

As you can also see in figure 13.6, the inflation rate sometimes spikes up sharply, as in 1974 and 1980. These sharp increases in the inflation rate were due in part to increases in prices in world food and oil markets. In order to study long-term trends in the inflation rate, analysts need to set aside temporary spikes in food and fuel prices. To do this, economists have developed the concept of core inflation rate. The **core inflation rate** is the rate of inflation excluding the effects of food and energy prices.

By far the worst kind of inflation is **hyperinflation**, or inflation that is out of control. During periods of hyperinflation, inflation rates can go as high as 100 or even 500 percent per month, and money loses much of its value. This level of inflation is rare, but when it occurs it often leads to a total economic collapse.

Figure 13.6 **Inflation Rate, 1964–2000**



Source: U.S. Department of Labor

BUILDING KEY CONCEPTS

Sharp inflation rate increases in 1974 and 1980 were due in part to increases in food and oil prices. An inflation rate of 1 to 3 percent does not typically cause economic problems.
Inflation In what years was the inflation rate at a level where it would not cause problems for the economy?

Causes of Inflation

Where does inflation come from? Price levels can rise steeply when demand for goods and services exceeds the supply available at current prices, such as during wartime. They can also rise steeply when productivity is restricted, such as when a long drought leads to poor harvests.

Nobody can explain every instance of rising price levels. Economists, however, offer several theories about the causes of inflation. These include the quantity theory, the demand-pull theory, and the cost-push theory.

A full explanation of the reasons for inflation incorporates all three theories. Economists therefore look at all elements of this picture when they try to understand the inflation process.

The Quantity Theory

The **quantity theory** of inflation states that too much money in the economy causes inflation. Therefore, the money supply should be carefully monitored to keep it in line with the nation's productivity as measured by real GDP.

Economists at the University of Chicago developed a popular version of this theory in the 1950s and 1960s. They maintained that the money supply could be used to control price levels in the long term. The key to stable prices, they said, was to increase the supply of money at the same rate as the economy was growing.

Demand-Pull Theory

The **demand-pull theory** states that inflation occurs when demand for goods and services exceeds existing supplies. During wartime, for example, the needs of the government put pressure on producers. The heavy demand for new equipment, supplies, and services makes those items more valuable, forcing their prices up. Wages also rise as the demand for labor increases along with the demand for goods.

Cost-Push Theory

According to the **cost-push theory**, inflation occurs when producers raise prices in order to meet increased costs. Higher prices for raw materials can cause costs to increase. Wage increases, however, are most often the biggest reason, since wages are the largest single production cost for most companies.

Wage increases can come when low unemployment leads employers to offer higher wages in an effort to attract workers. Wage increases can also occur as a result of collective bargaining.

Assume, for example, that Jen is a union laborer at Am-Gro Fertilizer. Her

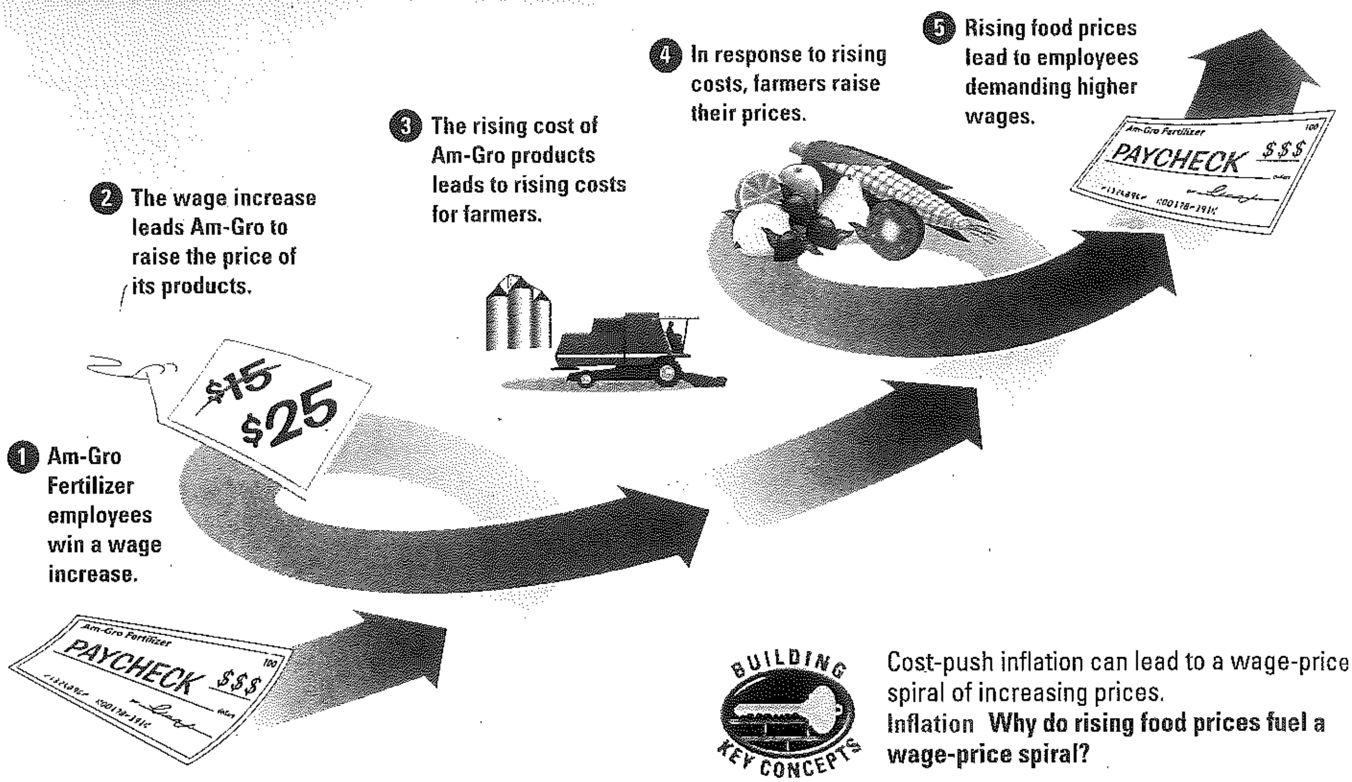
hyperinflation *inflation that is out of control*

quantity theory *theory that too much money in the economy causes inflation*

demand-pull theory *theory that inflation occurs when demand for goods and services exceeds existing supplies*

cost-push theory *theory that inflation occurs when producers raise prices in order to meet increased costs*

Figure 13.7 The Wage-Price Spiral



BUILDING KEY CONCEPTS

Cost-push inflation can lead to a wage-price spiral of increasing prices.

Inflation Why do rising food prices fuel a wage-price spiral?

wage-price spiral *the process by which rising wages cause higher prices, and higher prices cause higher wages*

union recently won a large wage increase. This new cost has led Am-Gro to raise its prices to meet the higher payroll and maintain its profits.

Cost-push inflation can lead to a spiral of ever-higher prices. That is, one increase in costs leads to an increase in prices, which leads to another increase in costs, and on and on. The process by which rising wages cause higher prices, and higher prices cause higher wages, is known as the **wage-price spiral.** Figure 13.7 above shows how a wage-price spiral would affect Am-Gro Fertilizer.

Effects of Inflation

High inflation is a major economic problem, especially when inflation rates change greatly from year to year. Buyers and sellers find planning for the future difficult, if not impossible. The effects of inflation can be seen mainly in purchasing power, income, and interest rates.

Purchasing Power

You have seen, in the example of Jack and Josephine Barrow's house, how inflation can erode purchasing power. In an inflationary economy, a dollar will not buy the same number of goods that it did in years past. To take a simple example, suppose $1.00 would buy $1.00 worth of goods last year. If the inflation rate is 10 percent this year, however, $1.00 will buy the equivalent of only $.90 worth of goods today.

Income

Inflation sometimes, but not always, erodes income. If wage increases match the inflation rate, a worker's real income stays the same. People who don't receive their income as wages, such as doctors, lawyers, and businesspeople, can often increase their incomes to keep up with inflation by raising the prices they charge.

Not all people are so fortunate. The Barrows, for example, could be hit hard by inflation because they are retired and living on a **fixed income**, or income that does not increase even when prices go up. The portion of their income from Social Security rises with the price level, because the government raises Social Security benefits to keep up with inflation. Much of their income, however, comes from a pension fund that pays them a fixed amount of money each month. Inflation steadily eats away at the real value of that pension check.

Interest Rates

People receive a given amount of interest on money in their savings accounts, but their true return depends on the rate of inflation. For example, Sonia had her savings in an account that paid 7 percent interest. At the same time, the annual inflation rate was 5 percent. The purchasing power of Sonia's savings increased that year by 2 percent, not by 7 percent, because 5 percent of her savings was needed to keep up with inflation.

When a bank's interest rate matches the inflation rate, savers break even. The amount they gain in interest is taken away by inflation. Savers may even lose money if the inflation rate is higher than their bank's interest rate.

Recent Trends

Americans over age 30 have experienced positive inflation rates for most of their lifetimes. In the late 1990s, however, prices at times seemed to be falling. Some experts even predicted a period of **deflation**, or a sustained drop in the price level.

In addition, unemployment levels during the late 1990s and early 2000s remained low. Typically, when unemployment falls to very low levels, inflation increases. This makes sense because high unemployment means that companies have lots of workers to choose from. They do not have to lure skilled workers with high wages. When the pool of available workers shrinks, wages rise. Rising wages can push the inflation rate up, as you know from the discussion of the wage-price spiral.

In the late 1990s, however, unemployment fell to its lowest level in decades, and inflation crept along at less than 3 percent. Economists had different reactions to this phenomenon. Some suggested that the economy was just going through a lucky streak. Others maintained that the economy was returning to the normal levels of unemployment that had existed in the 1950s and 1960s.

fixed income *income that does not increase even when prices go up*

deflation *a sustained drop in the price level*

Section 2 Assessment

Key Terms and Main Ideas

1. How does **inflation** affect **purchasing power**? Give an example.
2. What is the purpose of the **Consumer Price Index (CPI)**?
3. What causes a **wage-price spiral**, and what can it lead to?
4. Why did the existence of low inflation and low unemployment in the 1990s puzzle some economists?

Applying Economic Concepts

5. *Math Practice* Suppose that the CPI for last year was 164 and that for this year it is 168. Calculate the inflation rate from last year to this year.
6. *Critical Thinking* If you had never experienced inflation, how might that affect your expectations about annual wage increases?
7. *Using the Databank* Turn to the chart on page 538 that shows the CPI Market Basket. **(a)** Which category of the CPI receives the highest percentage weighting? **(b)** Does this answer surprise you? Why or why not?

Take It to the NET

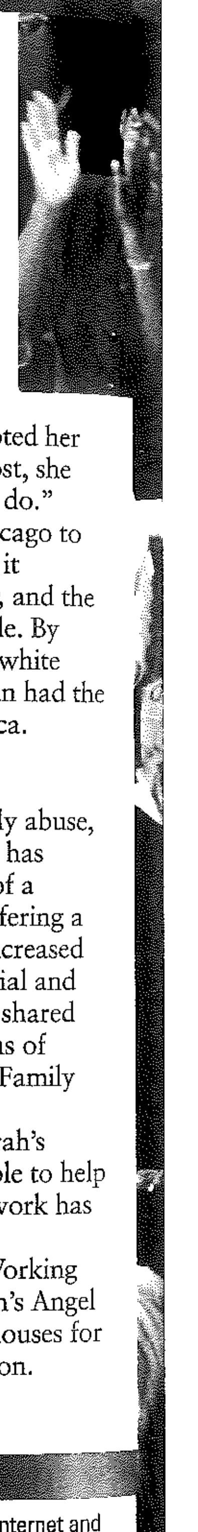
Using CPI data for the past decade, write a short oral presentation regarding the impact of inflation on the economy. Use the links provided in the Social Studies area at the following Web site for help in completing this activity. **www.phschool.com**

Economist

Entrepreneur

ECONOMIC

Profile



Oprah Winfrey (b. 1954)

Determination and an uncanny ability to connect with her audience enabled Oprah Winfrey to become one of the richest and most powerful women in America. Remembering her roots, Oprah has used her substantial power in the media to raise awareness of important social and economic issues.

Raised in Poverty

Born in rural Mississippi, Oprah Winfrey spent her early childhood in extreme poverty on a farm, where she was raised by her grandmother after her mother moved north in search of work. At age 6, Winfrey was sent to Milwaukee, Wisconsin, to live with her mother and half brothers. The family struggled to survive on her mother's monthly $50 income as a servant.

Winfrey spent her early teens in and out of trouble until she went to live with her father in Nashville, Tennessee. Winfrey credits his strict discipline with saving her life. He required her to learn five new vocabulary words each day and read one book per week. "Getting my library card was like citizenship," Winfrey recalls. She soon excelled in school, and in her senior year, she got a part-time job reading the news for a local radio station.

The Oprah Winfrey Show

While studying speech and drama at Tennessee State University, Winfrey was offered a job anchoring the evening news at a local TV station. "Sure I was a token," she says, "But, honey, I was one happy token." After graduating in 1976, Winfrey took a job with a station in Baltimore, Maryland. When the station demoted her from news anchor to talk show host, she discovered what she "was born to do."

In 1984, Winfrey moved to Chicago to take over a similar show. In 1985, it became *The Oprah Winfrey Show,* and the next year it began to air nationwide. By 1987, in a business dominated by white men, this African American woman had the most-watched talk show in America.

Oprah Gives Back

In exploring topics related to family abuse, poverty, and opportunity, Winfrey has confronted her own past in front of a national television audience. By offering a forum for such subjects, she has increased public awareness of important social and economic issues. Winfrey has also shared her success by contributing millions of dollars to schools and to her own Family for Better Lives foundation.

In 1997, Winfrey launched Oprah's Angel Network to encourage people to help those in need. Oprah's Angel Network has raised more than $3.5 million for scholarships for needy students. Working with Habitat for Humanity, Oprah's Angel Network has also built over 200 houses for low-income people across the nation.

CHECK FOR UNDERSTANDING

1. Source Reading Describe three ways in which Oprah Winfrey has used her position to address the issue of poverty in America.

2. Critical Thinking How are poverty and opportunity related? What effects does widespread poverty have on the nation's economy?

3. Learn More Use the Internet and other resources to learn more about efforts to improve the lives of poor people in the United States. Prepare a brief report on one specific public or private program.

Section 3

Poverty

Preview

Objectives

After studying this section you will be able to:

1. **Define** who is poor, according to government standards.
2. **Describe** the causes of poverty.
3. **Analyze** the distribution of income in the United States.
4. **Summarize** government policies intended to combat poverty.

Section Focus

Despite the tremendous success of our nation's economy, millions of Americans remain poor. The government develops public policies and programs to try to combat poverty.

Key Terms

poverty threshold
poverty rate
income distribution
food stamps
Lorenz Curve
enterprise zone
block grant
workfare

What image comes to mind when you think of poverty? You might associate poverty with a homeless person on a city street or a poorly clothed child in a small rural house. Despite the success of the American economy, many Americans lack sufficient food, clothing, and shelter. In this section you'll read about the nature and causes of poverty, the distribution of income in the United States, and government programs designed to combat poverty.

The Poor

As you have read, the United States Bureau of the Census conducts extensive surveys to gather data about the American people. Then its economists analyze the data and organize it to reveal important characteristics, such as how many families and households live in poverty. The Census Bureau defines a family as a group of two or more people related by birth, marriage, or adoption who live in the same housing unit. A household is all people who live in the same housing unit, regardless of how they are related.

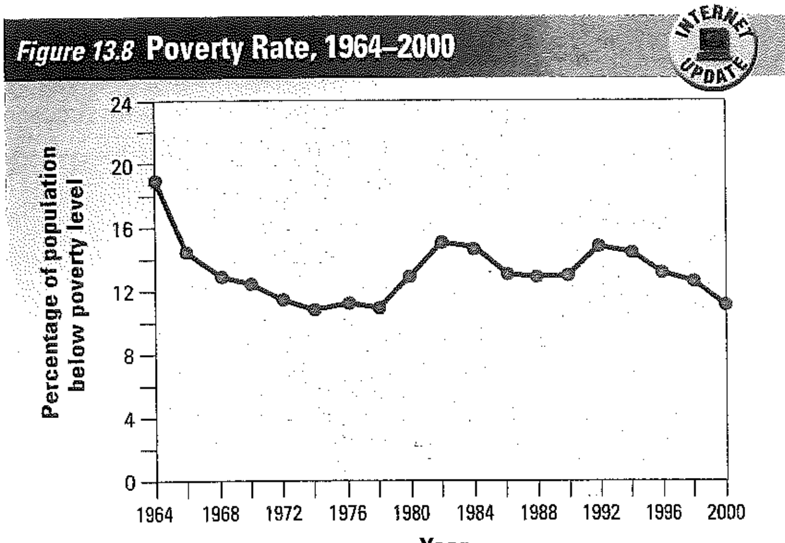
The Poverty Threshold

According to the government, a poor family is one whose total income is less than the amount required to satisfy the family's minimum needs. The Census Bureau determines the income level, known as the poverty threshold, needed to meet those minimum needs. The **poverty threshold** is the income level below which income is insufficient to support a family or household.

The poverty threshold, or poverty line, varies with the size of the family. For example, in 2000, the poverty threshold for a single parent under age 65 with one child

poverty threshold *the income level below which income is insufficient to support a family or household*

Figure 13.8 **Poverty Rate, 1964–2000**

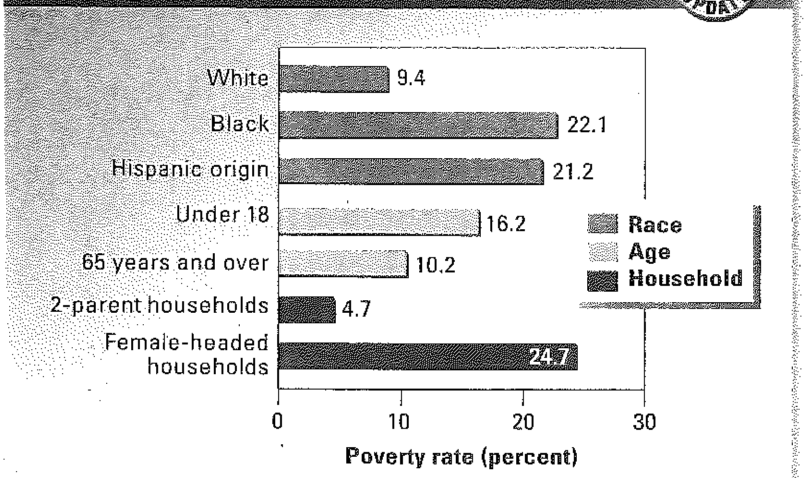


Source: U.S. Census Bureau

BUILDING KEY CONCEPTS

The poverty rate began to decline during the 1960s, partly as a result of anti-poverty programs.
Income **How did poverty rates during the 1990s compare with poverty rates during the 1960s?**

Figure 13.9 **Poverty Rates by Group, 2000**



Source: U.S. Census Bureau

BUILDING KEY CONCEPTS

Households headed by women, African Americans, and Hispanics are more likely than other groups to have incomes below the poverty threshold, as this recent data shows.

Income **What percentage of African American families have incomes below the poverty threshold?**

poverty rate *the percentage of people who live in households with income below the official poverty line*

was $11,869. For a family of four with two children, it was $17,463. If a family's total income is below the poverty threshold, everyone in the family is counted as poor.

The Poverty Rate

Figure 13.9 shows poverty rates for various groups. The **poverty rate** is the percentage of people who live in households with income below the official poverty threshold.

We can use poverty rates to discover whom the government considers to be poor and what factors seem to contribute to poverty. As you read in Chapter 3, poverty rates differ sharply by groups, according to several different indicators:

- *Race and ethnic origin* The poverty rate among African Americans and Hispanics is more than twice the rate for white Americans.
- *Type of family* Families with a single mother have a poverty rate almost six times greater than that of two-parent families.
- *Age* The percentage of children living in poverty is significantly larger than that for any other age group. Young adults make up the next largest group in this category.
- *Residence* People who live in the inner city have double the poverty rate of those who live outside the inner city. People who live in rural areas also have a higher poverty rate, especially in regions where job prospects are limited.

Causes of Poverty

Put simply, a family is poor when the adults in the family fail to earn enough income to provide for its members' basic needs. This failure to earn adequate income is often the result of unemployment.

As you read in Section 1, millions of Americans are unemployed, for a variety of reasons. While they are out of a job, their families might well fall below the poverty threshold. Many other poor adults are not even considered a part of the labor force. Some suffer from chronic health problems or disabilities that prevent them from working.

Many poor adults do have jobs, however. In fact, more than half of poor households have someone who works at least part-time, and one in five have a full-time, year-round worker. For these "working poor," the problem is usually low wages or a limited work schedule, rather than the lack of a job. For example, Ray makes $7.90 an hour as a full-time clerk in a clothing store. While he is at work, his wife stays at home with their two young children. Although Ray works 40 hours per week, and his salary is well above minimum wage, his annual earnings amount to just over $16,400, which is below the poverty threshold for a family of four.

Economists agree that poverty and lack of income go hand in hand, but have different ideas about the causes of poverty. Here are some of the most important explanations for why some people are poor.

Lack of Education

The median income of high school dropouts in 1998 was $20,724, which was just above the poverty threshold for a family of five in that year. High-school graduates earned about one third more than dropouts, and college graduates earned about three times as much.

Location

In most cities of the United States, racial minorities are concentrated in the inner cities, far from the higher-wage jobs in suburban areas. Many inner-city residents do not own cars, and mass-transit systems are often not an efficient means of commuting from the inner city to the suburbs. As a result, people who live in the inner city earn less than people living outside the inner city. Similar obstacles exist for many people living in rural areas.

Racial and Gender Discrimination

White workers generally earn more than minority workers, and men generally earn more than women. Much of this income inequality can be explained by differences in hours worked, education, and work experience. Part of the inequality, however, results from racial and gender discrimination. Even when all the workers in a group are equally productive, whites are often paid more than African Americans, and men are often paid more than women. Economists agree, however, that this kind of discrimination has been diminishing.

Economic Shifts

People who lack education and skills are not very productive workers. For this reason they are often the "last hired and first fired." They are hired when the economy is expanding, and workers are hard to find, but they are the first to lose their jobs when the economy slows down. Also, workers without college-level skills have suffered in recent decades from the ongoing decline of manufacturing and the rise of service and high-technology jobs.

THE WALL STREET JOURNAL. CLASSROOM EDITION

In the News *As the following excerpt from a* Wall Street Journal Classroom Edition *article shows, poverty in rural areas remains persistent, even in a growing economy. Allendale County, South Carolina is typical.*

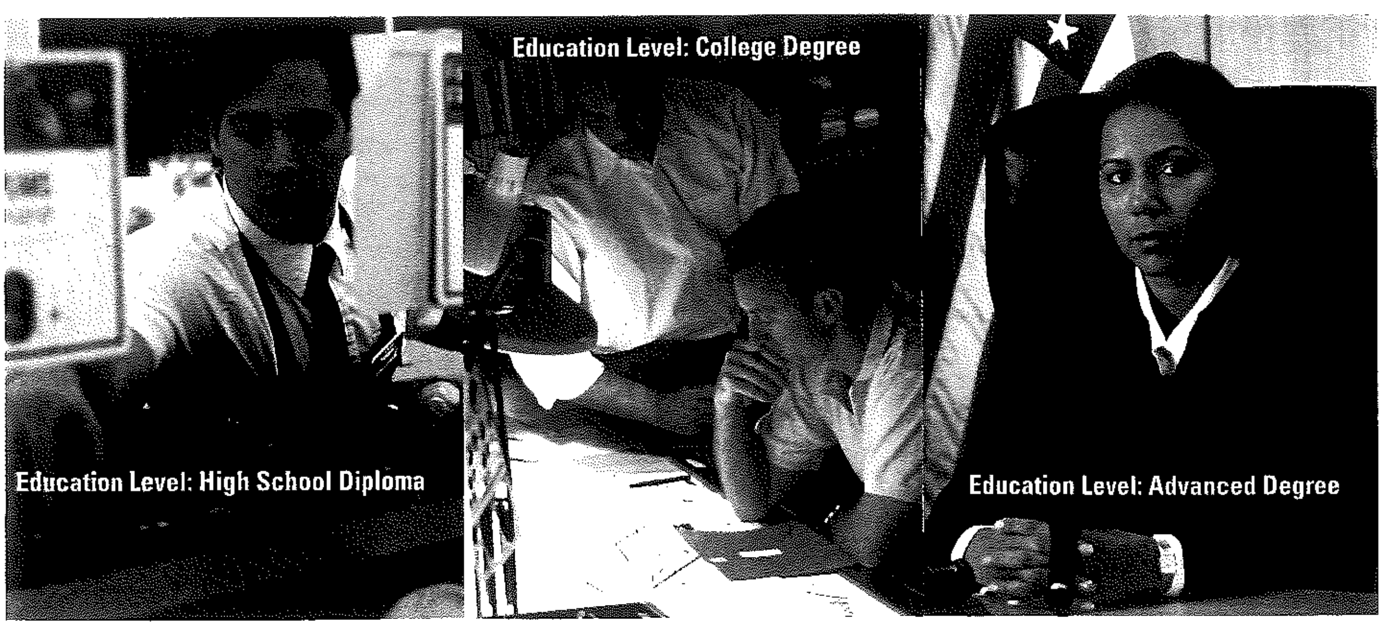
"A third of Allendale residents live in poverty. A quarter of adults have no more than an eighth-grade education. Local jobs are so scarce that Warren Chavous, who teaches job-hunting skills to welfare clients, tells his students not to bother with the help-wanted ads."

Shifts in Family Structure

The divorce rate has risen significantly since the 1960s, as has the number of children born to unmarried parents. These demographic shifts tend to result in more single-parent families and more children living in poverty.

Income Distribution

In 1999, the median household income in the United States was $40,816, which means that half the households earned more than this amount and half earned



▼ **People with college and advanced degrees generally earn much higher incomes than people with only high-school diplomas.**

income distribution *how the nation's total income is distributed among its population*

food stamps *government-issued coupons that recipients exchange for food*

less. This figure, however, tells only part of the income story. In order to fully understand poverty in the United States, you also need to understand **income distribution**, or how the nation's total income is distributed among its population.

Income Inequality

The United States has millions of poor people, but it also has the one of the highest per capita GDPs in the world. How can that be? The answer lies in how the market distributes income. Figure 13.10 shows how income is distributed in the United States. These figures do not take into account the effects of taxes or noncash government aid such as housing subsidies, health care, or food stamps. **Food stamps** are government-issued coupons that recipients exchange for food.

Look at the table on the left side of Figure 13.10. To compute the numbers in the table, economists take four steps.

1. First, they rank the nation's households according to income.
2. Second, they divide the list into fifths, or quintiles, with equal numbers of households in each fifth. The lowest fifth, which appears at the top of the list, includes the poorest 20 percent of households. The highest fifth, which appears at the bottom of the list, includes the richest 20 percent of households. The first column in Figure 13.10 shows this division into quintiles.
3. Next, they compute each group's average income by adding up the incomes of all the households in the group, and then dividing by the number of households.
4. Finally, they compute each group's share, or percentage, of total income by dividing the group's total income by the total income of all the groups. The second column shows each group's share. The third column shows the cumulative total. (For example, the lowest two fifths of households earned 12.5 percent of total income.)

Compare the share of the poorest fifth with that of the richest fifth. If you divide richest by poorest, you will see that the typical household in the richest fifth receives more than 13 times the income of the typical household in the poorest fifth.

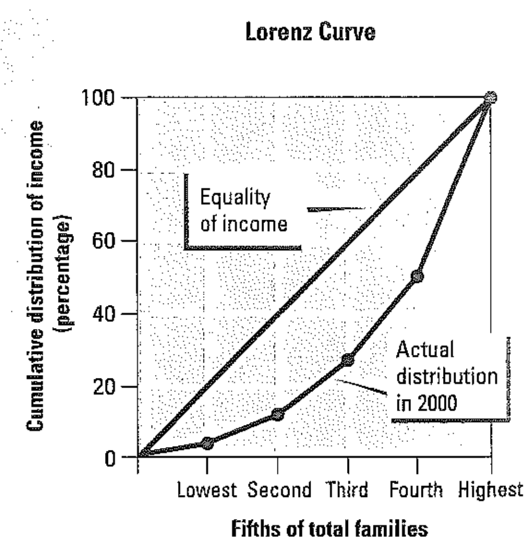
Now look at the graph on the right side of Figure 13.10. It shows that the numbers for shares of total income, when they are plotted on a graph, form a curve. This

BUILDING KEY CONCEPTS

The table (left side) shows family income ranked by category. When plotted on a Lorenz Curve (right side), these data show the distribution of income in the United States. **Income What percent of total income did the lowest three fifths of households make in 2000?**

Figure 13.10 Income Distribution

Percent of Total Income, 2000		
Quintile	Percent of income for quintile	Cumulative: Percent of income for this and lower quintiles
Lowest fifth	3.6%	3.6%
Second fifth	8.9%	12.5%
Third fifth	14.8%	27.3%
Fourth fifth	23.0%	50.3%
Highest fifth	49.6%	100.0%



Source: U.S. Census Bureau

graph, called the **Lorenz Curve**, illustrates the distribution of income in the economy.

Let's see what this Lorenz Curve tells you. First, read the label on each axis. Then look at the straight line running diagonally across the graph. This reference line represents complete equality. Under conditions of complete equality, each quintile would receive one fifth of total income. That means the lowest 20 percent of households would receive 20 percent of total income, as shown by the point (lowest, 20). Similarly, the lowest 40 percent (the first two quintiles) would receive 40 percent of total income, as shown by the point (second, 40). The lowest 60 percent would receive 60 percent of total income, and so on.

In 1999, the distribution of income was not equal, as the Lorenz Curve indicates. For example, the point (lowest, 3.6) shows that the lowest 20 percent, or one fifth, of households received just 3.6 percent of the nation's total income. The point (second, 12.5) shows that the lowest 40 percent, or two fifths, of households received only 12.5 percent of the income. The area on the graph between the line of equality and the Lorenz Curve represents the amount of inequality in income distribution. The larger the area between the curves, the greater the income inequality.

Income Gap

As you can see from Figure 13.10, the wealthiest fifth of American households earned almost as much income (49.4 percent) as the bottom four-fifths combined (50.6 percent). A study published in 1999 showed that the richest 2.7 million Americans receive as much income after taxes as the poorest 100 million Americans. Why are there such differences in income among Americans? Here are two key factors.

- *Differences in skills and education* Some people are more highly skilled than others, so they earn higher wages. Labor skills are determined in part by education and training and in part by a worker's natural ability. In addition, some people work in jobs that are in high demand, so they generally earn more income.
- *Inheritances* Some people inherit large sums of money and earn income by investing it. Others inherit businesses that produce income from profits.

In the last two decades, the distribution of income has become less equal. Since 1977, the share of income earned by the top lowest three fifths has decreased by 12 percent, while the share earned by the top 1 percent has more than doubled.

▲ **Young adults who volunteer for the government-sponsored AmeriCorps program help combat poverty.**

Antipoverty Policies

As you read in Chapter 3, the government spends billions of dollars on programs designed to reduce poverty. This money is spent mainly on cash assistance, education, medical benefits, and noncash benefits such as food stamps and subsidized housing.

Many antipoverty programs have drawn criticism from those who say that much of the money is wasted or that the programs themselves harm the very people they are intended to help. In recent years, these criticisms have led to various new policies and proposals for reform. These include the establishment of enterprise zones, job training and other forms of employment assistance, and welfare reform.

Lorenz Curve *the curve that illustrates income distribution*

FAST FACT

In 1994, the welfare rolls reached their highest level and then started declining. By 1997, they had fallen by nearly 25 percent. Part of the reason for the decline was the booming economy during this period. Another was the establishment of state and federal reforms. Still another reason, some suggest, was that the old-fashioned work ethic had been restored.

Enterprise Zones

Enterprise zones, which became popular in the 1980s, are areas where companies can locate free of certain state, local, and federal taxes and restrictions. These zones benefit businesses and residents because people can find work near their homes. Rundown areas, such as inner cities, can begin to be revitalized.

Employment Assistance

The lack of an adequate income may result from inadequate skills or simply a lack of opportunity. In recent decades, federal and state governments have designed job-training programs to deal with the problem of workers who lack skills. In addition, the federal government has made a minimum wage mandatory since 1938. The minimum wage ensures that workers' hourly pay will not fall below a certain point.

enterprise zone *area where companies can locate free of certain local, state, and federal taxes and restrictions*

block grant *federal funds given to the states in lump sums*

workfare *a program requiring work in exchange for temporary assistance*

Welfare Reform

Poor people often cannot afford basic needs, such as food and medical care. The United States has long had a welfare system that provides for those basic needs, especially for children and the elderly. That system underwent major reform when President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. (See Debating Current Issues, pages 354–355.)

This welfare-reform plan responded to criticisms that welfare encouraged poor people to remain unemployed in order to keep receiving aid. It replaced the traditional antipoverty program for poor families (Aid to Families with Dependent Children, or AFDC) with a new program called Temporary Assistance for Needy Families (TANF). TANF eliminated cash assistance for poor families. Instead, the federal government provides **block grants,** or lump sums of money, to the states. As a result of this welfare-reform act, the states are now responsible for designing and implementing programs to move most poor adults from welfare dependence to employment. TANF also set a 5-year limit on receipt of benefits.

How will TANF affect poverty rates? The plan calls for a shift from welfare to **workfare**—a program requiring work in exchange for temporary assistance. The resulting surge of new employees will increase the number of low-skilled people in the labor market. In theory, this could lower the wages of the least-skilled workers. On the other hand, welfare reform has the potential to reduce poverty by providing poor Americans with labor skills and access to a steady, adequate income.

Section 3 Assessment

Key Terms and Main Ideas

1. How is the **poverty threshold** related to the **poverty rate?**
2. Identify five reasons that help account for poverty.
3. What is the **Lorenz Curve,** and what does it suggest about the distribution of income in the United States?
4. How do existing government policies deal with poverty?
5. Explain how a family can include working adults but still have an income below the poverty threshold.

Applying Economic Concepts

6. *Try This* Suppose that you are in charge of creating an antipoverty program for your state. Create a list of at least five proposals for your program.
7. ***Math Practice*** Do you think the minimum wage in 1997 ($5.15 per hour) was adequate to lift most families out of poverty? Explain your answer.
8. ***Critical Thinking*** How might the distribution of block grants help the federal government control its budget?

Take It to the NET

Poverty rates vary in different regions of the country. Find the most recent national poverty rate and the poverty rate for your region. Use the links provided in the Social Studies area at the following Web site for help in completing this activity. **www.phschool.com**

Real-life Case Study

Unemployment in a Booming Economy

In the late 1990s, the United States found itself in the midst of an economic boom that would have been unimaginable only a decade earlier. Demand for workers continued to grow to such an extent that by 2000, there were more than 122 million jobs in the nation. Meanwhile, the nation's unemployment rate remained well below 5 percent.

▲ Job seekers can use the Internet to help them find the right job.

Looking for Work During such a period of frenzied demand for workers, some people thought that anyone who wanted a job could get one. They were wrong. Even in periods of so-called full employment, there are always qualified people without jobs. Some companies move, while others fail. Some workers live in areas where there are few jobs available that match their skills.

Take Rick Taber, for example, a highly educated, skilled accountant who lives about 100 miles from Boston. When the company he worked for was purchased by another firm, he lost his job. There were jobs available in Boston, but Rick didn't want to move there. He spent almost a year searching for a job near his home that would match his skills and experience, but eventually had to take a job for which he was overqualified.

Older Workers Sometimes older workers have trouble finding jobs because of the emphasis on youth in the job marketplace. Many energetic men and women in their 50s and 60s, with years of experience in their fields, have difficulty finding work because some companies prefer to hire younger employees, who tend to work for smaller salaries.

Effects of Technology In addition, the technology that helped create millions of new jobs in high tech industries has also eliminated jobs in other areas. Many bank tellers, for example, have lost their jobs because computers and machines do many of their tasks more cheaply and efficiently. Telephone operators are being replaced by automated phone systems. As technology continues to perform routine tasks more efficiently, more and more Americans will find themselves switching jobs, and perhaps occupations.

Applying Economic Ideas

1. Why are some people jobless during periods of high employment?
2. How might technological changes in the workplace affect the unemployment rate?

Career Planning