

## Economic Detective Troubles in Hitechum



### Problem

Hitechum is a small, industrialized nation that had long enjoyed full employment. Its economy is based on the production of modems for personal computers. The workforce is educated and highly trained, but technological advances have begun to reduce demand for Hitechum's modems. The nation is faced with mounting woes. Use what you have learned in this chapter to answer the questions that follow.



### Investigation 1

As demand for modems drops and industry lays off workers, Hitechum experiences rising unemployment. There has always been some seasonal unemployment, but now a new type of unemployment plagues the economy. Industry diversifies by moving into new product lines, such as devices for downloading music from the Internet. Still, many workers find that their skills are no longer needed. Some workers take lower paying jobs; others find only part-time work.

1. Identify the new type of unemployment that Hitechum is confronted with, and describe its causes. \_\_\_\_\_
2. How would Hitechum's government determine the unemployment rate? \_\_\_\_\_
3. What do economists call a situation in which people work at a job for which they are overqualified? \_\_\_\_\_



### Investigation 2

A new concern for the citizens of Hitechum is inflation. Creeping inflation has been present in the economy for years, but now rising costs for raw materials start forcing producers of downloading devices to raise prices. Workers' productivity declines as they retrain for new jobs. In one year, the cost of many food items rises by about 15 percent. When the inflation rate continues to increase, government economists struggle to track rising prices and calculate the inflation rate.

1. How would developing a consumer price index help government economists? \_\_\_\_\_
2. What type of inflation does Hitechum face? \_\_\_\_\_
3. How will inflation affect the purchasing power of Hitechum's citizens? \_\_\_\_\_



### Investigation 3

As the economic situation in Hitechum worsens, some citizens are no longer able to support their families. They receive government assistance in the form of food stamps, housing subsidies, and medical benefits. Some people complain that these programs are wasteful and actually harm the people they intend to help by making them dependent and less likely to help themselves. The government reforms its aid programs by requiring recipients to work in exchange for assistance. Over a period of several months, the job market begins to expand.

1. What programs does Hitechum first develop to combat poverty? \_\_\_\_\_
2. Some people criticize government programs for being wasteful or harmful to the people they intend to help. How does the government respond? \_\_\_\_\_
3. How might the government's latest welfare program have helped the job market to expand? \_\_\_\_\_