

# PFL Academy

Teacher Guide: Chapter 54 — Inflation, Unemployment, and Personal Finance

## OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet	L-50 Supply & Demand, L-53 Fiscal & Monetary Policy

## LESSON FLOW

### 5 min THE CHALLENGE

- Present 1970 vs. 2024 price comparison—make it personal and tangible.
- Discussion: "Has your family mentioned how prices have changed since they were your age?"
- Connect to students: "These forces affect your salary, ability to buy a home, and job prospects."

### 10 min CORE CONCEPTS

- Draw the three inflation types on board: Demand-Pull (too much money), Cost-Push (production costs), Monetary (too much printing).
- Explain unemployment types with relatable examples: Frictional (between jobs), Structural (skills obsolete), Cyclical (recession).
- Introduce Phillips Curve: "Can't have both low unemployment AND low inflation—Fed must balance."

### 25-30 min APPLY IT

- **Part A (8 min):** Inflation Type Identification. Ensure students distinguish demand-side from supply-side causes.
- **Part B (8 min):** Unemployment Classification. Focus on different strategies for each type—especially structural requiring retraining.
- **Part C (9 min):** Calculations. Help with math—emphasize that raises below inflation = pay CUT in real terms.

### 10 min CHECK YOUR UNDERSTANDING

- Complete in class or assign as homework.
- Review Q4 (real salary calculation) and Q5 (recession job strategies).
- Use Q3 to connect back to L-53 fiscal/monetary policy—full circle.

## DIFFERENTIATION

### Support

- Provide visual diagram: Inflation Types with arrows showing cause → effect.
- Pre-calculate the exponent values for Part C ( $1.03^{10} = 1.344$ , etc.).
- Use concrete examples: "If a hamburger costs \$5 now, what will it cost in 10 years?"

### Extension

- Research current Fed policy and predict next interest rate decision based on inflation data.
- Calculate how much salary they'll need at age 50 to maintain current purchasing power.
- Analyze the 1970s stagflation crisis and compare to 2021-2023.

- Partner struggling students for unemployment classification scenarios.

- Create an investment strategy to beat inflation over 30 years.

## ANSWER KEY

### Part A: Inflation Type Identification

**Scenario 1 (COVID Stimulus):** DEMAND-PULL. Government stimulus increased consumer demand (people had extra money) while supply was constrained (factories closed). Too much money chasing too few goods.

**Scenario 2 (Oil Crisis):** COST-PUSH. Oil prices increased production costs across all industries. Businesses raised prices to cover higher costs—supply-side shock.

**Scenario 3 (Zimbabwe):** MONETARY. Government printed excessive money to pay debts. Money supply grew faster than economic output, making each dollar worth less.

### Part B: Unemployment Classification

**Marcus:** FRICTIONAL. Voluntary job transition, expected 1-3 months. Strategy: Network aggressively, be selective but not too picky, negotiate strongly (economy healthy).

**Linda:** STRUCTURAL. Skills obsolete due to technology, may take months to years. Strategy: Assess transferable skills, retrain in growing field (tech, healthcare), consider relocation, take temporary work while training.

**James:** CYCLICAL. Economy-wide recession, construction halted, until recession ends. Strategy: File unemployment, take gig work, expand geographic search, upskill during downtime, consider going back to school.

### Part C: Inflation Calculations

Calculation 1: Eroding Savings

Real Value =  $\$5,000 \div (1.03)^{10} = \$5,000 \div 1.344 = \$3,720$

Lost purchasing power:  $\$5,000 - \$3,720 = \$1,280$  (26% loss)

Calculation 2: Salary Reality Check

Nominal year 5:  $\$50,000 \times (1.02)^5 = \$55,204$

Inflation factor:  $(1.04)^5 = 1.217$

Real salary:  $\$55,204 \div 1.217 = \$45,361$

Result: POORER—lost \$4,639 in real purchasing power (9.3% pay cut!)

Calculation 3: CPI Inflation Rate

$(305 - 292) \div 292 \times 100\% = 4.45\%$

### Check Your Understanding

1. B (Cost-push inflation)

2. Natural rate (~4-5%) includes frictional (people between jobs) and structural (skills mismatch). Can't be zero because: 1) There will always be people transitioning jobs, 2) Technology constantly changes skill requirements, 3) Below natural rate causes labor shortages → wage inflation.

3. Fed raises interest rates (contractionary monetary policy), reduces money supply. Higher rates discourage borrowing/spending → demand falls → inflation falls. Trade-off: Higher unemployment as economy slows. Phillips Curve: fighting inflation causes unemployment.

4. Nominal:  $\$40,000 \times 1.344 = \$53,760$ . Inflation: 1.280. Real:  $\$53,760 \div 1.280 = \$42,000$ . (Gaining purchasing power because raises > inflation)

5. Should mention: 1) Lower expectations temporarily (take job below skill level to stay employed), 2) Network aggressively (70% of jobs through connections, more important when hiring slow), 3) Upskill during downtime (emerge more valuable when economy recovers). Quality of reasoning matters.

## COMMON MISCONCEPTIONS

Misconception	Clarification
"Inflation is always bad."	Moderate inflation (2%) is healthy—encourages spending and investment. Deflation (falling prices) often signals recession and can be worse. The Fed targets 2%, not 0%.
"A bigger number paycheck means I'm richer."	Only REAL wages (adjusted for inflation) measure purchasing power. 5% raise with 7% inflation = 2% pay cut in real terms.
"Unemployment is unemployment—all the same."	Types require different solutions. Frictional is healthy (job transitions). Structural needs retraining. Cyclical needs stimulus. Wrong treatment makes things worse.
"The government can eliminate both inflation and unemployment."	Phillips Curve shows they move inversely. Fighting inflation (raise rates) causes higher unemployment. Fighting unemployment (lower rates) causes higher inflation. Must balance.