

The President's Dilemma

Chapter Four

Purpose and Overview

Time required

10–12 class periods

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Project scenario

In a mixed-market economy like the United States, the federal government uses fiscal and monetary policy tools to influence the behavior of individuals, firms, and financial institutions. However, in attempting to improve the performance of the nation's economy, the government encounters the problem of resource scarcity. Tradeoffs must be considered; some groups may be harmed in order to help another group in society. To explore these concepts and gain some understanding of macroeconomic analysis, students are presented with the following problem-solving scenario in this project:

Due to a rapid rise in oil prices, the United States is facing a severe economic crisis with high levels of inflation, high unemployment, and slow economic growth. The President, whose approval ratings are plummeting, has asked a Special Task Force of the Council of Economic Advisors to recommend a policy to deal with the crisis without increasing the national debt. The Task Force is asked to make an oral presentation with visual aides to a panel composed of representatives of constituencies that have a targeted interest in the economic solution proposed. As students learn about leading economic indicators and fiscal and monetary policy, letters arrive from three panel members. Each constituent argues for policies that benefit their interest group—unemployed middle-class workers, retired people, and business representatives. Students must consider both supply-side and demand-side options and weigh the costs and benefits of various solutions as they recommend policies that balance the needs of the nation.

Concepts to be learned

To successfully resolve the problem and complete the products required in this project, students need to understand and be able to apply the following economic concepts:

Purpose and Overview

- Budget deficit
- Consumer price index
- Contractionary policy
- Cost-push inflation
- Demand
- Demand-side theories
- Discount rate
- Crowding out
- Economic indicators
- Expansionary policy
- Federal reserve system
- Fiscal policy
- Government spending
- Gross Domestic Product (GDP)
- Inflation
- Interest rates
- Monetary policy
- Multiplier
- National debt
- Open market operations
- Opportunity cost
- Reserve requirement
- Scarcity
- Supply
- Supply-side theories
- Tax
- Tradeoffs
- Unemployment rate

Teaching *The President's Dilemma*

Sequence of the unit

Like the other BIE *Project Based Economics* units, students complete *The President's Dilemma* by following a standard set of activities in a proscribed order. But within these activities, there will be variation in the timing and in the way students complete them.

The sequence of instructional activities is described below. This sequence is logical, and is based upon extensive pilot testing in high school economics classrooms. It is also informed by research into effective instruction. Although changes may be necessary to meet time constraints, address the needs of specific student populations, or include additional instructional materials and learning opportunities, we strongly encourage teachers to adhere to the sequence of activities as closely as possible—at least during the first several times *The President's Dilemma* is taught. Each instructional activity is discussed in more detail in the following section, the *Step-by-Step Teaching Guide*.

Pre-project planning

0. **Prepare** for successful project implementation.

Launching the project

1. Students receive **Entry Document, the memo from the President**, and discuss it as a whole class.

Framing the inquiry

2. Students develop the **initial Know List** with you (whole-class discussion).
3. Students develop the **initial Driving Question** with you (whole-class discussion).
4. Students develop the **initial Need-to-Know List** with you (whole-class discussion).

Problem-solving and learning activities

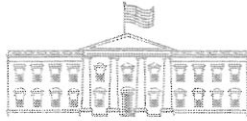
5. Provide **Clarifying Lesson #1** on *economic indicators*.
6. Students receive **national statistics table** and review it with you (whole-class discussion).
7. Students write **memo comparing current crisis** with economic indicators in the past (in small groups).
8. Students receive **letter from Maria Bautista**, Policy Analyst for the Campaign for Job Security, and discuss it as a whole class.
9. Provide **Clarifying Lesson #2** on *fiscal policy tools*.

10. Students individually write **first Project Log entry**.
11. **Review individual Project Log entries** to assess understanding of economic concepts.
12. Students receive **letter from Angela Soracco**, president of a retired persons' association, and discuss it as a whole class.
13. Provide **Clarifying Lesson #3** on *monetary policy tools*.
14. Students individually write **second Project Log entry**.
15. **Review individual Project Log entries** to assess understanding of economic concepts.
16. Students receive **letter from William M. Jorgenson**, CEO of the Henry J. Car Corporation, and discuss it as a whole class.
17. Students individually write **third Project Log entry**.
18. **Review individual Project Log entries** to assess understanding of economic concepts.
19. Students **work on policy recommendation** (in small groups).
20. Students receive **memo from Chief of Staff**, and discuss it as a whole class.
21. Students **finalize the Know/Need-to-Know List** (whole-class discussion).
22. Students **finalize the Driving Question** (whole-class discussion).
23. **Share supplied rubric with students** to guide their work.

Presentation, assessment, and debrief

24. Students **work on policy recommendation and plan presentation** (in small groups).
25. Students **present policy recommendations** (in small groups).
26. Use supplied rubric to **assess presentations** and written summaries.
27. Conduct **debrief to clarify and consolidate** students' understanding of key economic concepts (as necessary).
28. Manage **student reflection** on the 21st-century skills practiced and the process of learning in PBL.
29. Use supplied **multiple-choice test** to assess individual students' knowledge of key economic concepts.
30. Make **notes on adjustments to the unit** to improve student learning for the next time the unit is taught.

Memo From the President



Office of the President The White House Washington

TO: Special Task Force of the Council of Economic Advisors
FROM: President of the United States
RE: Policy Recommendations for Current Economic Crisis

As you know, the recent oil supply shocks and the rapid rise in oil prices have produced an economic crisis. As a result, we are facing:

- High level of unemployment (12.5%) affecting all sectors of the economy—middle managers are now losing jobs at increasing rates and homelessness is rising rapidly in urban areas
- High rate of inflation (9% annually)—people are concerned about being able to afford basic necessities, while businesses are contracting
- Dramatic slowing of economic growth in the past two quarters—real GDP has dropped by 13%

I am hearing a great deal of criticism from all sides about how we're not dealing strongly enough with this—my approval ratings have plummeted. We need to develop an economic policy that will ease the crisis. I have therefore convened this special task force of the Council of Economic Advisors. Of course, any policy we develop cannot increase our already-too-high national debt.

Once you have developed your policy, prepare a presentation, using visuals, that explains and justifies your policy. A written summary of your presentation must be on my desk before you make it. You will deliver the presentation to me and a panel of representatives of different constituencies. We need to get feedback on whether or not voters will find the policy acceptable, a critical necessity if I am to have a hope of being reelected this year and you have a hope of keeping your politically appointed jobs. The panel will ask you questions and expect you to defend your plan. If this group accepts your recommendations, I will use your ideas as the basis for a speech to the nation the following week.

Some people are saying this could be the worst economic crisis the nation has ever confronted. Before you get started on your policy recommendation, send me a memo ASAP with your analysis of how our current unemployment, inflation, and economic growth compare to leading economic indicators in the past.

National Statistics For Selected Years

	GDP		Change GDP		Discount rate percent	Consumer Price Index (1982-1984 = 100) percent	Rate of inflation percent	Unemployment rate % of civilian labor force	Public debt (nominal) billions
	Nominal billions	Real (2000 dollars) billions	Change (nominal) percent	Change (real) percent					
1929	103.6	865.2	-	-	5.17	17.10	0.00	3.20	16.9
1933	56.4	635.5	-4.0	-1.3	2.50	13.00	-5.10	24.90	22.5
1939	92.2	950.7	7.0	8.1	1.00	13.90	-1.40	17.20	40.4
1940	101.4	1034.1	10.0	8.8	1.00	14.00	0.70	14.60	42.9
1942	161.9	1435.4	27.7	18.5	0.88	16.30	10.90	4.70	72.4
1944	219.8	1806.5	10.7	8.1	0.50	17.60	1.70	1.20	201.0
1946	222.3	1589.4	-0.4	-11.0	0.88	19.50	8.30	3.90	269.4
1950	293.8	1777.3	9.9	8.7	1.60	24.10	1.30	5.30	257.3
1955	414.8	2212.8	9.0	7.1	1.92	26.80	-0.04	4.40	274.3
1960	526.4	2501.8	3.9	2.5	3.50	29.60	1.70	5.50	286.3
1965	719.1	3191.1	8.4	6.4	4.04	31.50	1.60	4.50	317.2
1970	1038.5	3771.9	5.5	0.2	5.94	38.80	5.70	4.90	370.9
1975	1638.3	4311.2	9.2	-0.2	6.21	53.80	9.10	8.50	533.1
1978	2294.7	5015.0	13.0	5.6	7.54	65.20	7.60	6.10	771.5
1980	2789.5	5161.7	8.8	-0.2	11.75	82.40	13.50	7.10	907.7
1985	4220.3	6053.7	7.3	4.1	7.67	107.60	3.60	7.20	1823.1
1990	5803.1	7112.5	5.8	1.9	6.96	130.70	5.40	5.60	3233.3
1995	7397.7	8031.7	4.6	2.5	5.21	152.40	2.80	5.60	4973.9
2000	9817.0	9817.0	5.9	3.7	5.73	172.20	3.40	4.00	5674.1
2005	12,455.8	11,048.6	6.3	3.2	4.19	195.30	3.40	5.10	7932.7
2006	13,246.6	11,415.3	6.3	3.3	5.96	201.60	2.00	4.60	8506.9

2012 15,320.8 11,597.

226.46

2.9

8.2

15,528.8

Letters From Constituent Groups

CAMPAIGN FOR JOB SECURITY

Keep America Employed!

TO: The President of the United States

FROM: Maria Bautista, Policy Analyst,
Campaign for Job Security

RE: Unemployment

The Campaign for Job Security (CJS), as you know, is a fast-growing workers' political action committee. Four months ago, CJS asked me to conduct a series of public forums and private meetings to determine the mood of workers across the nation, in light of the rising levels of unemployment among the middle class. After my conversations with citizens throughout our country, I think you should be most concerned about the growing sense of economic insecurity and despair among middle-class Americans. Unemployment is their major worry—either because they've lost their jobs or fear it's about to happen.

Currently, 52% of employed workers are concerned about losing their jobs. Because many of these workers are long-term employees of their firms or factories, their reemployment opportunities would not be good. America needs to keep them employed! Perhaps you should implement measures that increase the buying power of the middle class and that provide training for individuals that lose their jobs. The middle class needs support to maintain their lifestyle.

Thank you for inviting CJS representative Joe Brezinski to hear the presentation by your Task Force and voice the concerns of our organization. You should know that Joe has recently lost his job and is worried about losing his home. Be prepared, he is angry.



SILVER PANTHERS OF AMERICA

TO: Office of the President
The White House, Washington, D.C.

FROM: Angela Soracco
President, Silver Panthers of America

RE: Eroding value of assets

We are quite concerned about rapidly increasing prices and their potential impact on the relatively fixed incomes of older Americans. Inflation is eroding the value of our assets such as our pensions and our homes. Our dollars can no longer stretch far enough to afford the basic necessities of living: rent, food, and health care. Increasingly, we are reliant upon our Social Security and any reduction in these payments will further limit our ability to buy basic necessities.

Most of us have worked hard all of our lives to create a nest egg so that we could enjoy the fruits of our labor in our old age. Perhaps it would be beneficial for you to speak to the chair of the Federal Reserve and remind him that rising prices are the most critical issue facing the nation during these difficult economic times.

After all, what kind of nation would neglect those who have dedicated their working lives to their country?

Henry J. Car

Office of the CEO
Henry J. Car Corporation

MEMORANDUM

TO: President of the United States

FROM: William M. Jorgenson, CEO, Henry J. Car Corporation

RE: Current economic crisis

As per our discussion at the Corporate Leaders Forum held at Camp David last week, I want to remind you of my concerns regarding the current economic crisis and to reiterate how I think this crisis should be handled.

As you know, the rising cost of production associated with the increased price of oil has made it necessary for us to increase the prices of our automobiles. As a result, fewer cars are being sold and our profit has fallen. Clearly, businesses cannot survive in such an environment. The success of big business is reliant on a supply-side strategy to solve the crisis. I am not sure that you agree with this. However, the continued support of your administration by the Corporate Leaders Forum is dependent upon your following this strategy.

I appreciate your invitation to join the panel of constituent groups who will hear your economic task force present their recommendations.

Remember, the business of America is business.

Memo From the Chief of Staff



Office of the Chief of Staff *The White House* *Washington*

TO: Special Task Force of the Council of Economic Advisors
FROM: Jesse Sloan, Chief of Staff
RE: Details on your presentation on the economic crisis

The President asked me to send you the following parameters for your presentation:

- 1) You have a minimum of five and a maximum of eight minutes to speak, using your visual aids.
- 2) Your presentation has to demonstrate an understanding of the economic problem.
- 3) Your presentation must include the monetary and fiscal policy options you have considered.
- 4) You must explain the options you chose as your solution and the reasons why you chose them.
- 5) Please explain the economic costs of your solution and why the benefits outweigh the costs.
- 6) Be prepared for questions from the President and the following constituent group representatives:
 - Joe Brezinski, representing unemployed workers and the Campaign for Job Security
 - Angela Soracco from the Silver Panthers of America, representing retired people
 - William M. Jorgenson, CEO, Henry J. Car Corporation