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## LESSON 8

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# ECONOMIC MISERY AND PRESIDENTIAL ELECTIONS

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### INTRODUCTION

Many factors influence voters as they decide how they will vote. The economic policies advocated by candidates and political parties are important factors in these decisions. No matter what policies a presidential candidate may propose, however, an incumbent candidate is often blamed for or credited with how well the economy is doing, whether or not the incumbent's policies were actually the cause of the condition in question. Many voters base their decisions narrowly on how the nation's economy is affecting them at the time. Therefore, in a presidential campaign in which an incumbent is vying for re-election, certain key measures of economic performance can help to predict the election outcome. This lesson shows how two economic measures, the Misery Index and the growth rate in real GDP per capita, can be used to make predictions about presidential elections.

### LESSON DESCRIPTION

The students examine economic data in order to predict the results of presidential elections.

### CONCEPTS

- Inflation
- Misery Index
- Real GDP
- Real GDP per capita
- Unemployment
- Voting and elections

### OBJECTIVES

Students will be able to:

1. Identify economic conditions likely to influence voter opinion.
2. Examine economic data to make predictions about presidential elections.

### CONTENT STANDARDS

#### Economics (CEE Standards)

- Costs of government policies sometime exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. (Standard 17)
- Unemployment imposes costs on individuals and nations. Unexpected inflation imposes costs on many people and benefits some others because it arbitrarily redistributes purchasing power. Inflation can reduce the rate of growth of national living standards, because individuals and organizations use resources to protect themselves against the uncertainty of future prices. (Standard 19)

#### Civics and Government (NSCG Standards, 9-12)

- Students should be able evaluate, take, and defend positions about the roles of political parties, campaigns, and elections in American politics. (III. E. 4)
- Students should be able to evaluate, take and defend positions about the means that citizens should use to monitor and influence the formation and implementation of public policy. (V. E. 3)

### TIME REQUIRED

60 minutes, plus time for the students to complete Activity 8.1 as homework

### MATERIALS

- A copy of Activity 8.1, 8.2, and 8.3 for each student
- A transparency of Visuals 8.1, 8.2, and 8.3

**PROCEDURE**

1. Tell the students that in a future class period they will be considering economic factors that influence the outcomes of presidential elections. In order to do this as accurately as possible, they will need to collect information from someone who is of voting age (18 years or older).
2. Give each student a copy of Activity 8.1. Assign the students to collect the information called for from one person of voting age. Set a due-date for completion of the task, and clarify the directions as necessary. The person from whom the information is collected does not need to be a member of the student's household. Parents, guardians, relatives, neighbors, co-workers, friends—all can serve as subjects for this interview. And even if the next presidential election is far off, it is important that the interviewees identify the issues that are, will be, or have been most important to them when considering which candidate to support for president. This activity is not intended to determine whether or not a person has voted in an election (or for whom she or he voted). Instead, it is designed to help students identify issues that are important to adults of voting age.
3. Collect the students' completed forms from Activity 8.1 and organize the responses for use during a forthcoming class period. As you review the responses, highlight common answers and central tendencies that stand out. When you resume work on the activity with the class, write these common answers on the board, with notations to show the number of times each was mentioned in responses to Activity 8.1.
4. Call on the students to comment on the election issues you have listed on the board. How many of these are economic issues? (*Answers will vary, but several economic issues [e.g., unemployment, inflation, the federal budget deficit, income inequality, tax policy, Social Security, trade policy, etc.] will likely appear on the list. Other issues [e.g., the environment, immigration, energy, and educational policy] also have economic implications.*) By reference to the economic issues listed, emphasize the point that the state of the economy weighs heavily in voters' minds as they decide which candidate to support. Quote the old political adage, "People tend to vote their pocketbooks."
5. Ask the students: Do you think the economy is in good shape today? (*Accept any answer.*) Press further: What data do you use to support your answer? (*Many answers are possible, but be sure to steer the discussion toward measures of the unemployment rate, the inflation rate, and real GDP as important determinants of the current state of economic activity. As necessary, explain that GDP is a measure of overall production, inflation measures the percentage change in average prices, and the unemployment rate captures the percentage of those who are working or wish to work but cannot currently find a job.*)
6. Display Visual 8.1. Use it to explain that some economic indicators are especially important in predicting election results. In particular, growth in real GDP per capita—growth in the value of final goods and services produced per person—is an important indicator of whether an incumbent president (or the candidate from the incumbent party) will be reelected. The growth in real GDP per capita is found by dividing real GDP for each year by the country's population and then finding the percentage change from one year to the next. A second indicator, the Misery Index, also can be used to predict an election result. In any given year, the Misery Index is the sum of the inflation rate and unemployment rate. As the name of the Misery Index implies, high rates of unemployment and/or high inflation rates can cause economic misery. Economic misery usually means trouble for incumbent candidates.
7. Divide the class into groups of three or four students. Distribute a copy of Activity 8.2 to each student. Briefly

review the columns in the table. (Note: You may wish to update the table with current data. If you do so, note that this table uses *annual* data. Annual unemployment and inflation [using the Consumer Price Index] data can be found by searching the website [www.bls.gov](http://www.bls.gov), while annual levels of real GDP per capita can be found at the website [www.bea.gov](http://www.bea.gov). As noted above, the annual growth rate of real GDP per capita can be computed by calculating the percentage change in the levels of this series, using “chained dollars,” from one year to the next).<sup>1</sup>

8. As you review the columns in Activity 8.2, ask:
  - What year since 1957 had the highest unemployment rate? *(1982)*
  - What year had the highest inflation rate? *(1980)*
  - What year had the highest Misery Index? *(1980)*
  - How does this compare to the Misery Index now? *(Use current data.)*
9. Distribute a copy of Activity 8.3 to each student. Ask the students, working in their groups, to complete Part I of Activity 8.3, using information provided in Table 8.2. *(Answers: 1960, Kennedy, Lose; 1964, Johnson, Win; 1968, Nixon, Lose; 1972, Nixon, Win; 1976, Carter, Lose; 1980, Reagan, Lose; 1984, Reagan, Win; 1988, Bush, Win; 1992, Clinton, Lose; 1996, Clinton, Win; 2000, Bush, Lose; 2004, Bush, Win; 2008, Obama, Lose.)* Since the rest of the sheet depends upon correct answers, check the students’ answers. As necessary, explain which party was the incumbent and who won each election.
10. Tell the students that they will now try to predict who will win a presidential election. More than that: They will try to create a rule that can be used to make such predictions. They will begin by considering an example. Display Visual 8.2 and discuss the rule that it proposes: “The incumbent party usually wins if the growth rate of real GDP per capita is greater than 0% during the year of the election.” Call on the students to check this rule against Table 8.2. How well does the rule stand up to the data? *(Not particularly well. While it predicts correctly all six of the incumbent wins, it is incorrect on six of the seven losses that were actually registered. It yields a correct prediction for a loss only in 1980; it incorrectly predicts a win for actual losses in 1960, 1968, 1976, 1992, 2000 and 2008. Overall, the rule correctly predicts only 7 of 13 elections.)*
11. Tell the students, working in groups, to complete Part II of Activity 8.3. Clarify the task as necessary. They must try to create two rules. One rule should be based on the real GDP per capita growth rate, the other on the Misery Index. You may want to provide hints—such as concentrating on current-year information for the real GDP per capita growth rule, and on changes from the year prior to the election year for the Misery Index. If the students have trouble coming up with these rules, show them the first two rules in Visual 8.3 and have them copy these rules to Part II of Activity 8.3.
12. Call on the students, group by group, to share their proposed rules with the class. Ask the class to decide which of the proposed rules work the best. Be sure that the students base their evaluations on how

<sup>1</sup> The term “chained dollars” is now frequently found in tables of macroeconomic data. This term comes from a procedure known as “chain-weighting,” which is a means by which statistical agencies convert economic data to “real” measures. Therefore a reference to “chained dollars” implies that the data are expressed in real, inflation-adjusted form (using constant prices instead of current prices). In most cases, it is unnecessary for students to know this, other than its use to differentiate between nominal and real measures.

successfully each proposed rule does in fact predict winners. Also, the students should reject any rules that are not based on economic reasoning. While many such rules have been suggested from time to time—for example, picking winners by reference to the score of the Washington Redskins' last home game—any successful rule should be based on acceptable economic theory.

13. If you have not already shown the students the first two rules in Visual 8.3, display them now. Ask:

- How well does the real GDP per capita growth rule in Visual 8.3 predict election outcomes? *(The rule is correct in 10 of 13 elections. It is incorrect for the years 1968, 1976, and 2000.)*
- How well does the Misery Index rule in Visual 8.3 predict election outcomes? *(The rule is correct in 11 of 13 elections. It is incorrect for the years 1976 and 1992.)*

14. Continue the inquiry. Ask: Given the first two rules in Visual 8.3, which election was the most difficult to predict? *(The 1976 election. Real GDP per capita growth was 4.3 percent. Inflation and unemployment, while high, were down significantly from the previous year. From an economic standpoint, these two facts make this election the hardest to predict by application of the two proposed rules. Non-economic factors probably mattered a great deal in this election. The incumbent was Gerald Ford, who had been appointed by President Nixon. President Nixon, who had earlier resigned as a result of the Watergate scandal, was ultimately pardoned from criminal prosecution by President Ford. It was not a good time for a candidate to be associated with the Nixon administration or the Republican party.)*

15. Turn to the last rule in Visual 8.3: the Guaranteed Loss Rule. Note that not all losses would have been predicted by this rule. Nevertheless, whenever the rule's two conditions have been met, the incumbent

party has always lost (in 1960, 1980 and 2008). An incumbent party is in trouble when the Misery Index has increased and real output per person has grown by less than 2.5 percent in an election year.

16. Will these rules continue to perform well? If the timing is appropriate, ask the students to use the Misery Index rule and the Real GDP per Capita Growth Rule to predict the outcome of a forthcoming presidential election.

### CLOSURE

Use the following questions to review the lesson:

- Based on the data you have examined in this lesson, do you believe that economic conditions have a strong impact on presidential elections? *(The answer should be yes; the economy usually does influence presidential elections.)*
- Is the incumbent party necessarily to blame for poor economic performance in the run-up to an election, or is it necessarily responsible for good economic performance? *(Answers will vary. Conventional wisdom holds that the President receives too much credit when the economy is doing well and shoulders too much blame when the economy is performing poorly.)*

### ASSESSMENT

#### Multiple-Choice Questions

- The misery index is the sum of the
  - inflation rate and the growth rate of real GDP.
  - unemployment rate and the growth rate of real GDP.
  - inflation rate and the unemployment rate.**
  - inflation rate, the unemployment rate, and the growth rate of real GDP.
- Inflation was the highest in
  - the late 1960s and early 1970s.

- B. **the late 1970s and early 1980s.**
  - C. the late 1980s and early 1990s.
  - D. the late 1990s and early 2000s.
3. Which one of the following growth rates is most likely to be lowest for the U.S. economy?
- A. Growth rate of nominal GDP
  - B. Growth rate of nominal GDP per capita
  - C. Growth rate of real GDP
  - D. **Growth rate of real GDP per capita**

### Constructed-Response Question

1. Assume that you are the president of United States. You are coming up for reelection next year. A bill that significantly increases government spending for projects across the country is awaiting your signature. While the increase in government spending will lower unemployment for the next year or two, you fear that it also will lead to significantly higher inflation in two years time. Given what you know about the correlation between the Misery Index and election outcomes, should you sign the bill?

*(The students should note that by signing the bill, the president increases his or her probability of reelection. The policy, while reducing unemployment, will come at a cost of inflation in the future. To evaluate the policy overall, the students need to weigh the benefits of lower unemployment and reelection against the prospect of higher inflation in the future.)*

**VISUAL 8.1****SOME KEY ECONOMIC INDICATORS****SOME KEY ECONOMIC INDICATORS**

- **Unemployment Rate:** The percentage of people in the labor force who are unemployed.
- **Inflation Rate:** The percentage increase in the overall price level.
- **Real GDP:** the value of all final goods and services produced in a country in a year, expressed in terms of constant dollars.

**TWO STATISTICS BASED ON THESE INDICATORS**

- **Misery Index:** The sum of the unemployment rate and the inflation rate.
- **Growth rate in real GDP per capita:** The percentage change in real GDP per person.



VISUAL 8.2

**AN ECONOMIC RULE THAT DOES NOT WORK WELL**

A Real GDP per capita growth rule:

The incumbent party usually wins if . . .

The growth rate of real GDP per capita is greater than 0% during the year of the election.

## VISUAL 8.3

**SOME ECONOMIC RULES THAT WORK WELL**

A Real GDP per capita growth rule:

The incumbent party usually wins if . . .

The growth rate of real GDP per capita is greater than or equal to 2.5% during the year of the election.

A Misery Index rule:

The incumbent party usually wins if . . .

The Misery Index has not increased from the year prior to the election.

A Guaranteed Loss Rule:

The incumbent party has always lost if

(1) the real GDP per capita growth is less than 2.5%

AND

(2) the misery index has increased from the year prior to the election to the year of the election.

## ACTIVITY 8.1

# THE THREE MOST IMPORTANT ISSUES IN A PRESIDENTIAL ELECTION

**Directions:** Ask an adult of voting age (18 years of age or older) the following three-part question. (This adult can be a family member, a guardian, a friend, a relative, a co-worker, or anyone else who may be willing to share his or her views about important issues in a presidential election. Make sure to indicate that you are NOT asking whether the interviewee plans to vote, or has voted in a prior election. You are also NOT asking for whom the interviewee has voted in the past, or may support in the future.)

The question:

Please indicate the three issues that are most important to you as you decide who will get your vote in a U.S. presidential election.

Issue 1: \_\_\_\_\_

Issue 2: \_\_\_\_\_

Issue 3: \_\_\_\_\_

## ACTIVITY 8.2

**ELECTIONS AND THE ECONOMY**

The following table includes information about three key measures (growth in real GDP per capita, unemployment rate, and inflation rate) of the annual performance of the U.S. economy since 1957.

**TABLE 8.2**

Year	Growth in Real GDP per Capita (in %)	Unempl. Rate (in %)	Inflation Rate (in %)	Misery Index	Real GDP per Capita Growth Rule	Misery Index Rule	Candidates	Incumbent Party Wins or Loses?
1957	0.2	4.3	3.3	7.6				
1958	-2.6	6.8	2.8	9.6				
1959	5.3	5.5	0.7	6.2				
1960	0.4	5.5	1.7	7.2	_____	_____	Kennedy / Nixon	_____
1961	0.7	6.7	1	7.7				
1962	4.4	5.5	1	6.5				
1963	2.9	5.7	1.3	7				
1964	4.5	5.2	1.3	6.5	_____	_____	Johnson / Goldwater	_____
1965	5.1	4.5	1.6	6.1				
1966	5.3	3.8	2.9	6.7				
1967	1.4	3.8	3.1	6.9				
1968	3.8	3.6	4.2	7.8	_____	_____	Humphrey / Nixon / Wallace	_____
1969	2.1	3.5	5.5	9				
1970	-1.0	4.9	5.7	10.6				
1971	2.1	5.9	4.4	10.3				
1972	4.2	5.6	3.2	8.8	_____	_____	McGovern / Nixon	_____
1973	4.8	4.9	6.2	11.1				
1974	-1.4	5.6	11	16.6				
1975	-1.2	8.5	9.1	17.6				
1976	4.3	7.7	5.8	13.5	_____	_____	Carter / Ford	_____
1977	3.6	7.1	6.5	13.6				
1978	4.5	6.1	7.6	13.7				
1979	2.0	5.8	11.3	17.1				
1980	-1.4	7.1	13.5	20.6	_____	_____	Carter / Reagan / Anderson	_____
1981	1.5	7.6	10.3	17.9				
1982	-2.9	9.7	6.2	15.9				
1983	3.6	9.6	3.2	12.8				
1984	6.3	7.5	4.3	11.8	_____	_____	Mondale / Reagan	_____

ACTIVITY 8.2, CONTINUED

ELECTIONS AND THE ECONOMY

TABLE 8.2, CONTINUED

Year	Growth in Real GDP per Capita (in %)	Unempl. Rate (in %)	Inflation Rate (in %)	Misery Index	Real GDP per Capita Growth Rule	Misery Index Rule	Candidates	Incumbent Party Wins or Loses?
1985	3.2	7.2	3.6	10.8				
1986	2.5	7	1.9	8.9				
1987	2.5	6.2	3.6	9.8				
1988	3.2	5.5	4.1	9.6	_____	_____	Dukakis / Bush	_____
1989	2.6	5.3	4.8	10.1				
1990	0.7	5.6	5.4	11				
1991	-1.5	6.8	4.2	11				
1992	2.0	7.5	3	10.5	_____	_____	Clinton / Bush / Perot	_____
1993	1.3	6.9	3	9.9				
1994	2.8	6.1	2.6	8.7				
1995	1.3	5.6	2.8	8.4				
1996	2.5	5.4	3	8.4	_____	_____	Clinton / Dole	_____
1997	3.3	4.9	2.3	7.2				
1998	3.0	4.5	1.6	6.1				
1999	3.3	4.2	2.2	6.4				
2000	2.5	4	3.4	7.4	_____	_____	Gore / Bush	_____
2001	-0.3	4.7	2.8	7.5				
2002	0.6	5.8	1.6	7.4				
2003	1.6	6	2.3	8.3				
2004	2.7	5.5	2.7	8.2	_____	_____	Kerry /Bush	_____
2005	2.0	5.1	3.4	8.5				
2006	1.8	4.6	3.2	7.8				
2007	1.0	4.6	2.8	7.4				
2008	0.2	5.8	3.8	9.6	_____	_____	Obama/McCain	_____

## ACTIVITY 8.3

**A WORKSHEET ON ELECTIONS AND THE ECONOMY**

**Directions:** Working with others in your group, use information from Table 8.2 to answer the following questions, as directed by your teacher.

**Part I. Who Won?**

1. Circle the winner of each presidential election.
2. Under the column “Incumbent Party Wins or Loses?” Write “Win” or “W” if the incumbent party won the election. Write “Lose” or “L” if the incumbent party lost the election. In each set of listed candidates, the first candidate mentioned is the Democratic candidate and the second candidate is the Republican candidate. In three contests, there was a third-party candidate who is listed as the last entry. To get started, note that the president prior to the Kennedy/Nixon election was Eisenhower, who was a Republican. Therefore, since Kennedy won the presidential election, your group should enter “Lose” in the appropriate spot in the last column of Table 8.2, since the incumbent party lost the election.

**Part II. Predictions**

1. Create a Real GDP per capita Growth Rule based on the instructions your teacher gives you.

Real GDP per capita Growth Rule:

The incumbent party usually wins if the real GDP per capita growth

\_\_\_\_\_.

2. For each election, write “Win” or “W” in the column under Real GDP per capita Growth Rule if the rule predicts the incumbent party will win. Write “Lose” or “L” in the column if the rule predicts the incumbent party will lose.

This real GDP per capita Growth Rule is correct \_\_\_\_\_ out of 13 times.

3. Create a Misery Index Rule based on the instructions your teacher gives you.

Misery Index Rule: The incumbent party usually wins if the misery index

\_\_\_\_\_.

4. For each election, write “Win” or “W” in the column under Misery Index Rule if the rule predicts the incumbent party will win. Write “Lose” or “L” in the column if the rule predicts the incumbent party will lose.

The Misery Index Rule is correct \_\_\_\_\_ out of 13 times.

