

CATEGORY: BRAZIL: NOW

CONCEPTS: ECONOMICS, work, poverty

ACTIVITY: INFLATION, DEPRESSION, ECONOMIC RECOVERY: A WORKSHEET.

This unit could be used with any country. The story is adapted to Brazil, but the concepts are generally valid for any nation. This unit is for advanced students in the middle grades and can also be used for high school classes.

OBJECTIVES: Upon completion of this unit, the student will be able to describe in his/her own words the process of inflation. He/she will also be able to give a clear definition of depression and economic recovery, plus a series of other economic terms.

MATERIALS: Copies of the following reading  
Paper, pen or pencils

PROCEDURE: Distribute and have the students read the story. You may want to help them through some of the terms and concepts. After reading and discussing, have them carry out the following activities:

1. Explain in your own words what "inflation" is. Give definitions for "depression" and "economic recovery."
2. Investigate in the World Almanac the rates of inflation for Brazil for three different years. Compare them with inflation rates in the U.S. for the same years. What can you conclude?
3. Optional: Many students have been introduced to the use of a flow chart to graphically describe a process. If this is the case with your class, have them describe the process of inflation, depression and economic recovery, based on the story, on a flow chart. To accomplish this they may want to review a few of the symbols employed on a flow chart. Any introductory book on computers will be helpful. See the sheet following the reading to review symbols and a sample flow chart. (If your students haven't been exposed to flow charts, this is probably not the right context for their introduction.)

VOCABULARY: inflation, depression, economic recovery, economist, economics, wages, profits, supply, demand, raw material, price hike, wage hike, goods, services, deflation, price freeze, wage freeze, fixed spending, fixed earnings, price stabilization, lay-off, unemployment, business failure, fixed number of jobs, undercutting, adequate income, interest rates, production.

**LEVEL: MIDDLE GRADES**

**Source:** Gibbs, Virginia G. *Latin America: Curriculum Materials for the Middle Grades*. Center for Latin America, University of Wisconsin-Milwaukee. 1985/1989.

RESOURCES: Charles T. Nisbet, Latin American Problems in Economic Development, New York: Free Press, 1969. Raúl Prebisch, Change and Development: Latin America's Great Task, New York: Praeger, 1971 (one of Latin America's most influential and concerned economists discusses in detail Latin America's financial institutions and problems).



INFLATION, DEPRESSION AND ECONOMIC RECOVERY  
The Economics of a Brazilian Village

Inflation, depression and economic recovery are three terms the economists throughout the world are constantly using. They represent economic occurrences that concern all of us. Let's try to understand these words by carefully reading the story of the small Brazilian village called Flores da Virgem.

Flores da Virgem ("Flowers of the Virgin") is a small community in the interior of Brazil. The total population is 2,500 inhabitants. Their daily lives are not a secret to anyone. People are very friendly and life in the town is pleasant. Everyone makes enough in wages or profits from small businesses to fill their basic needs. So, we can say that the economy is in very good shape.

Imagine that you are the owner of a small pineapple juice stand in Flores da Virgem. Everyone in town knows about your delicious and refreshing drink. The hot weather common in Flores da Virgem always calls for a cold drink, and your pineapple juice is certainly the very best.

One day you receive some bad news. Bad weather has caused damage to the pineapple crop. This means that there will be fewer pineapples available this year - probably not enough to satisfy everyone. You are faced with a situation of diminishing supply. However, all your customers still want your well-known pineapple juice -- the demand remains the same. The suppliers who normally sell you the pineapples to make the juice are charging more money for the fruit, since they have fewer to sell. This causes what is called a rise in the price of raw materials. Since you have to pay more money for the pineapples (raw material), you will have to charge more for your juice (product) or you will not make any profit.

News spreads quickly all around town. Dom Francisco, the baker, decides to charge more for his bread in order to be able to afford your juice. This is called a price hike.

At the same time, Dom Gustavo, the auto mechanic, will ask for more money to repair a car, and Dona Maria Lúcia, the seamstress, will want higher wages for sewing a dress. This is called a wage hike. This continues all over town. Soon you realize that the cost of goods (the juice you sell, Dom Francisco's bread) is going up. The cost of services (auto repair, sewing a dress) is also going up. Perhaps you need to raise the price of your juice again to be able to pay for the goods and services you need. Everything in town is going up. But, the amount of bread being sold and the amount of cars being repaired is the same. Productivity is the same. You are now faced with a very serious situation, which is called inflation.

Inflation is bad news for Flores da Virgem. Everyone is moaning over the higher prices. The people in local government are talking about ways to deflate the economy, or, in other words, to turn the process of inflation around. If the local authorities order you to stop charging more for your pineapple juice, and order Dom Francisco to stop charging more for his bread, this is called a price freeze. If they make Dom Gustavo and Dona Maria Lúcia stop charging more for their services, this is a wage freeze. With fixed spending (controlled prices) and fixed earnings (controlled wages), the local authorities hope to eventually stabilize prices (keep them from shooting up).

But more bad news comes to town. The sugar cane crop has also been lost and sugar is very scarce. Your pineapple juice stand is beginning to lose its profits, since you also have to pay a lot more for the sugar to sweeten your juice. Your prices have been frozen so you can't cover the extra expense by charging more. You have to lay off (temporarily fire) your assistant, Manuel. The wages you don't have to pay him now become your profit. But, poor Manuel becomes part of the unemployment problem.

In addition to sugar, flour also becomes scarce (since Brazil exports pineapple and sugar and uses the money it earns to import flour, bad pineapple and sugar harvests mean they can't import as much flour.) The price of a pound of flour goes up. Dom Francisco realizes that the price of his basic raw material is rising, but the price of his product is frozen. Even without the freeze, there are many newly unemployed people like Manuel, your ex-assistant, who couldn't afford the bread if Dom Francisco raised its price. Soon Dom Francisco experiences a business failure (he is forced to close the bakery since he can't afford to keep it open). He also becomes part of the rising unemployment problem.

If Dom Francisco decides to try to solve his unemployment by opening a different type of business, he might decide to open an auto repair shop, like Dom Gustavo's. However, he would then be competing for a fixed number of jobs (there are no more cars to be fixed, just more mechanics wanting jobs). If Dom Francisco decides to charge less than Dom Gustavo (to attract his competitors' customers), he is then undercutting Dom Gustavo and may put him out of business. Everyone is making less money, and Dom Gustavo isn't making any at all. None of the people have an adequate income to buy your juice.

With unemployment rising and spending sharply limited, the economic situation is very bad. The inhabitants of Flores da Virgem face a depression.

The town leaders are very concerned about the situation. They decide to try to stimulate the economy. Banks and the government set up programs to lend money, at low interest rates, to all providers of goods and services. This allows them to stay in business and employ others. They also create jobs (road building, public construction, etc.) for those who are unemployed so they can again purchase goods and services. If they are lucky (no more lost crops) the unemployment rate goes down, and production goes up. Business again looks good and if people feel confident to buy, employ and work on their small businesses the town will experience an economic recovery.

## FLOW CHART SYMBOLS AND EXAMPLE

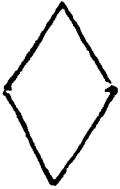
(Optional for "Inflation, depression and economic recovery  
in Flores da Virgem, Brazil")



= Start/Stop. The beginning or ending of a process is coded by using this symbol.



= Input/Output. This is used for occurrences, something that happened.



= Decision. Used for conditional statements.



= Used for normal (expected) steps of the process.

For example: Mary goes to the supermarket. She remembers she needs tomatoes. She goes to the fruits and vegetables section. If the tomatoes are ripe, she will buy them. If the tomatoes are not ripe, she will buy carrots. If the carrots are too expensive, she will not buy them and will go back home.

