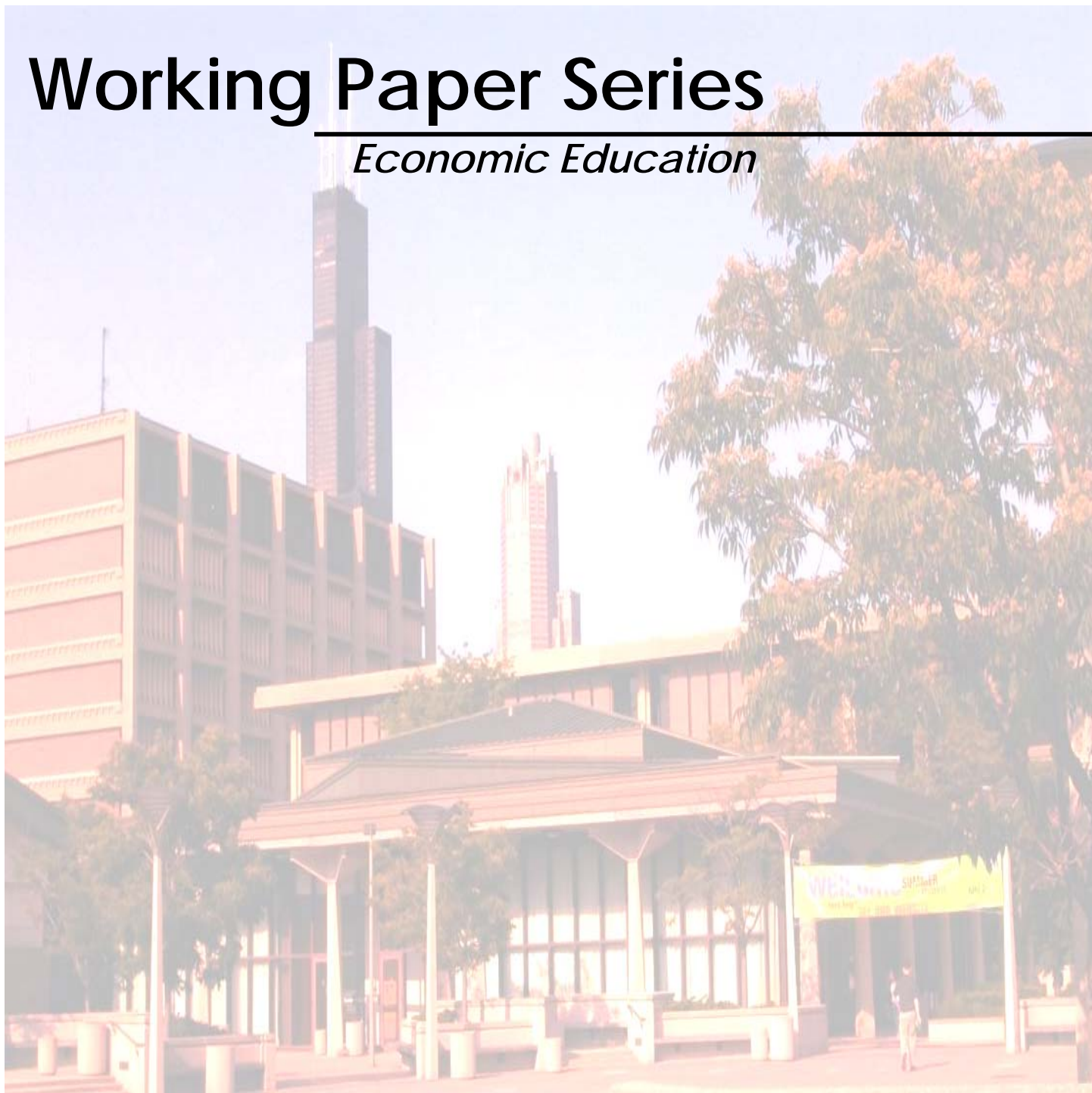


# Working Paper Series

*Economic Education*



No. 006

*Assessing the Impact of Country Specific  
Macroeconomic Indicators on Economic Literacy  
for Teachers in Transition Economies*

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## **Introduction**

Newly available data on economic knowledge and economic attitudes from participants in workshops from Eastern Block countries makes it possible to assess the economic understanding of these individuals. Economic literacy for adults and students and the understanding of markets and market systems has been the focus of a number of researchers. Much of this research, however, has examined the differences in student economic literacy as a function of demographic variables. The information available in this dataset makes it possible to assess the level of economic literacy for adults living in different ‘emerging’ economies. Because the economic systems of these countries have such large differences, it is possible to test the economic literacy of these individuals as a function of their experiences of market economics. For this research, the experiences of market economics will be measured as macroeconomic variables: GDP, inflation and Unemployment.

The paper is organized as follows: section 2 discusses the data set. The model and hypotheses will be outlined in section 3. The results will be discussed in section 4 and the conclusion will follow in section 5.

## **2. Data**

The data used in this analysis are the Cooperative Education Exchange Program (CEEP) data, collected from 1995 – 1999. This data was collected by the National

Council on Economic Education (NCEE) through workshops/seminars presented in its International Education Exchange Program (IEEP). The information used in this research was collected in workshops given to teachers from a number of ‘transition’ economies. These ‘teaching the teachers’ workshops were directed at primary, middle and secondary school teachers from Azerbaijan, Bulgaria, Croatia, Estonia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Ukraine, and Uzbekistan.

**Table 1. Year and Frequency of Country Participants**

<b>Country</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Azerbaijan	-	60	-	-	-
Bulgaria	-	34	22	-	-
Croatia	-	-	-	31	62
Estonia	-	23	-	-	-
Kazakhstan	-	-	48	39	36
Kyrgyzstan	48	47	-	-	-
Latvia	-	38	38	-	-
Lithuania	40	-	39	29	-
Poland	42	-	-	-	-
Ukraine	41	-	-	-	-
Uzbekistan	-	-	-	25	-

Source: CEEP 1995-1999

Participants in the “Teach the Teachers” workshops completed several different surveys—The Participant Information Form, the Market Economy Attitude Survey, the Survey on Attitudes Towards Economic Issues and Policies, and a Teaching Skills Inventory. The teachers in the workshops also took the Test of Economic Literacy: Version B (TEL:B) as a pre-test for the workshop and the Test of Economic Literacy: Version A (TEL:A) as a post-test.

For this study, we are examining the relationship between country specific macroeconomic variables—Gross Domestic Product, inflation, and unemployment rate—and the degree of economic literacy measured by the percentage of correct answers to the

Test of Economic Literacy Pre-test. Although the CEEP data does include demographic variables for the individuals participating in the workshops, it does not include the economic variable for the countries of these individuals. The macroeconomic information for each country was obtained from a number of sources. The *CIA World Fact Book* (1996-2000) was used to gather these variables for many of the countries. In the case that the CIA World Fact Book did not include the information for a specific country, the International Monetary Fund (IMF) tables were used or information was collected from the on-line site of the country's central bank. For each country, the GDP is measured as billions of purchasing power parity U.S. dollars, the unemployment rate is the number of persons in the labor force who are currently out of work and looking for employment, and the inflation rate is the change in the overall level of prices from the previous year to the current year.

The “teach the teachers” data series includes 749 observations from 11 countries over five years. Because there are a small number of observations for each year and a much smaller number of observations for any country within that year, the data are pooled and treated as a cross-section time series.

### **3. Model and Hypotheses**

In much of the research on levels of economic literacy, a score from a standardized test—the Test of Understanding of College Economics (TUCE) or the Test of Economic literacy (TEL)—is regressed against a vector of demographic and human capital variables—age, gender, race, household income, general education and economic education. This treatment is appropriate in order to test the differences in economic understanding between individuals in largely heterogeneous groups—high school

students from Minneapolis (FED, 1998)—but may not be completely satisfactory when examining economic understanding of individuals who are native to countries that have little or no history of market economics. For these individuals, the understanding of Economics would be a function of their formal education and their experience and exposure to economic systems in their country.

The model of economic understanding is similar to a model of English language fluency presented in Chiswick and Miller (1995):

Economic Literacy = f (education, economic education, exposure ).

In the same way the English language fluency (literacy) is a function of the need to understand English—to work or to live—and exposure to the English language, Economic Literacy is also a function of the need to understand economic systems and the exposure an individual has to economic systems. This model is formulated based on observations made by the University of Illinois at Chicago-Center for Economic Education staff while conducting Economic Education and Financial Literacy workshops in Chicago: participants are both more interested and more involved in the workshop lessons when the lessons parallel current economic activity. For example, lessons concerning unemployment or wages are well received if given following a recent announcement of unemployment figures or unemployment claims; participants ask more questions and are more active when a lesson on the Federal Reserve System, Open

Market Operations, and interest rates is given in a workshop following announcements by Alan Greenspan.

The empirical model is as follows (the hypothesized impact is above each variable) :

$$1) \text{ EconLit}_{mjt} = f \left( \begin{array}{cccccc} (?) & (+) & (+) & (+) & (+) & \\ \text{male, education, major in Economic, YrsTeaching, YrsTeach} & & & & & \\ \text{Economics, Learned Econ in Workshop}_k, \text{ GDP}_{jt}, \text{ Unemploy}_{jt}, \text{ Inflation}_{jt}, & (?) & (?) & (?) & (?) & \\ ? & & & & & \\ \text{Year}_t \end{array} \right)$$

Where *EconLit* is the percentage of correct answers of the TEL pre-test by individual *m* in country *j* at time *t*. The independent variables include the following: a dichotomous variable equal to one for males; a set of dichotomous variables (BA, MA, PhD, Candidate, and Other) for education; a dichotomous variable equal to one if the individual majored in economics as an undergraduate and a second variable equal to one if the individual majored in economics as a graduate student; the number of years teaching and the number of years teaching economics; a series of dichotomous variables identifying if the individual learned economics through workshops conducted by the *k*<sup>th</sup> group: National Council for Economic Education, Junior Achievement, or other similar organizations; the GDP of country *j* at time *t*; the Unemployment rate of country *j* at time *t*; and the Inflation rate of country *j* at time *t*.

Another series of models will examine the impact of independent variables on the percentage of correct answers on the TEL pre-test that cover specific areas of economics—Gross Domestic Product, interest rates, trade, labor markets and unemployment, and market systems. The empirical model is as follows

$$(?) \quad (+) \quad (+) \quad (+)$$

$$2) \text{PerctCorrect}_{mjt} = f(\text{gender}, \text{education}, \text{major in Economic}, \text{YrsTeach Economics}, \text{Learned Econ in Seminars}_k, \text{GDP}_{jt}, \text{Unemploy}_{jt}, \text{Inflation}_{jt}, \text{Year}_t)$$

Where *PerctCorrect* is the percentage of correct answers from the TEL pre-test in the area *l*<sup>1</sup> – GDP, interest rates, trade, labor markets or market systems—for person *m* in country *j* at time *t*.

The theoretical model suggests that economic literacy is a function of general human capital, human capital and exposure to economics. As such, we hypothesize that persons with more education will have higher economic literacy. Those persons with an undergraduate and/or graduate major in economics will also exhibit higher economic literacy. We anticipate that economics can also be learned by teaching economics in primary, secondary and college classrooms—those individuals who have positions teaching economics should also show higher amounts of economic understanding. Attending workshops and seminars on economics should also have a positive and significant relationship with economic understanding—we anticipate that participation in NCEE and Junior Achievement workshops will increase economic literacy.

Exposure to economics will occur through the above mentioned channels: education, undergraduate and graduate major, teaching economics and attending economic and financial literacy workshops. In addition, the economic condition of the country will expose individuals to economics and economic systems. We have alternate hypotheses, however, as to the impact of these economic variables.

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<sup>1</sup> The questions from the TEL focusing on GDP, interest rates, labor, markets and trade are listed in the appendix.

- 1) Countries with high GDP, low unemployment and low inflation likely have a Governments and a central banking system that can use monetary and fiscal policy effectively. As such, individuals living in these systems will have a better understanding of macroeconomics and macroeconomic policy. In this case, we will see a positive relationship between GDP and economic literacy and a negative relationship between inflation and economic literacy and unemployment and economic literacy.
  
- 2) Countries with high fluctuation in GDP, high inflation and high unemployment are likely to have Governments and central banks that are not as effective in implementing macroeconomic policy. However, the flurry of activity often forces individuals to learn the fluctuations in GDP, inflation and unemployment impact them directly. The ‘need to know’ created in these systems will increase the economic literacy of individuals.

#### **4. Results**

##### ***Human Capital and Demographic Variables***

The results of regression equation 1) and 2) are listed in tables 3 and 4. There is a strong positive and significant relationship between economic literacy—as measured by both the percentage of the TEL pre-test answered correctly and the percentage of concentration-specific questions answered correctly—and education. Individuals with Bachelor’s degree scored 6 percent higher on the TEL, and those with Master’s and Candidate’s degrees scored approximately 11 percent higher. There does not appear to be any advantage for individuals who ‘majored’ in economics in either undergraduate or graduate school. This second result is not a surprise considering that both undergraduate and graduate level economic education in many of these countries has had difficulties



keeping the focus on market structures rather than socialist systems (Kovzik et. al. 2002, Koeva and Yakimova, 1998, Grunloh and Akseneko, 2002, Bikse and Cobb, 2002, and Brant et. al, 2002). There is, however, an increase in economic literacy for those teachers who been instructing economics. The combination of these results suggests that although these persons may not have learned economics as students, they may be learning enough economics to pass along market information to their own students.

Although learning economics in undergraduate and graduate school has not appeared to help these individuals, attending workshops and seminars on economics and financial literacy has made a difference. Individuals who have taken workshops provided by the National Council on Economic Education and/or Junior Achievement score 5-8 percent higher on the TEL. Those who have participated in NCEE workshops scored higher on questions relating to GDP and inflation, while those who attended JA workshops and seminars scored higher on questions relating to taxes, inflation and markets. Individuals who learned economics through their job (or found it necessary to learn economics because of their job/occupation) scored 4 – 9 percent higher on all facets of the TEL.

These results suggest that general human capital investments (education), economic literacy specific human capital investments (NCEE and JA workshops), on the job training (teachers of economics and learning for occupation) have a substantial role in developing economic literacy.

### ***Macroeconomic Indicators***

Equations 1) and 2) were also run with country specific macroeconomics variables: GDP, lagged GDP,  $\Delta$ GDP, inflation and unemployment. Because of the high

correlation between these variables, estimating equations 1) and 2) were run using only one of these measures at a time. A second series of estimates were conducted using a combination of GDP and inflation and  $\Delta$ GDP and unemployment.

The current level of country specific unemployment has a significant relationship to the level of economic literacy. Each percent of unemployed increased the score by 0.3 percent. Although this appears to be a very small impact, persons living in countries with 20-30% unemployment rates (Croatia, Kyrgyzstan and Bulgaria) scored 9 percent higher on the TEL pre-test. Persons from countries with higher unemployment rates scored much higher on the TEL questions regarding taxes, GDP, inflation and labor markets/unemployment.

The test scores were also higher for individuals from countries with large changes in GDP (GDP growth). Each 1 percent increase in GDP increased test scores for questions regarding GDP by 12.5 percent. This measure was also strongly correlated with questions regarding taxes, inflation, labor/unemployment and markets. Interestingly, persons from countries with positive GDP growth scored lower on questions regarding unemployment. Because positive GDP is associated with increased employment, it is possible that the GDP growth is capturing the expanding labor market and the falling unemployment rate; individuals experiencing falling unemployment may be less interested in the reasons and consequences of unemployment.

## **5. Conclusion**

In this research, we are using a newly available dataset, the CEEP, to test the impact of human capital, demographic, and macroeconomic variables on the economic literacy of participants in training programs. We hypothesize that economic literacy is a

function of, among other things, exposure to economics. Exposure to economics comes with education and job experiences. The exposure to economics also occurs when you live in countries with drastically changing economic systems and changing economic conditions. As such, we hypothesized that economic literacy would be higher among those individuals who lived in countries where the economies showed strong movements.

Our results indicated that general education and on-the-job training have significant relationships to economic literacy. In addition, individuals living in countries with higher rates of GDP growth and higher levels of unemployment have a greater knowledge of economics.

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**Table 2. Descriptive Statistics of Variables in the CEEP Teach the Teachers: 1995-1999**

<b>Variable</b>	<b>Description</b>	<b>N</b>	<b>Mean</b>	<b>Stand Dev.</b>	<b>Min.</b>	<b>Max</b>
<i>Dependent</i>						
PrctPre TEL	Percentage correct of the TEL pre-test	655	0.5892	0.1414	0.0652	0.9347
PrcGDP	% correct of questions concerning GDP	710	0.6568	0.2215	0.00	1.00
PrcInt	% correct of questions concerning Inflation	712	0.6574	0.2524	0.00	1.00
PrcTax	% correct of questions concerning Taxes	713	0.4369	0.2182	0.00	1.00
PrcLabor	% correct of questions concerning Labor market/Unemployment	713	0.5687	0.2293	0.00	1.00
PrcMarket	% correct of questions concerning Market systems	713	0.6761	0.2010	0.00	1.00
<i>Independent</i>						
Male (%)	Male = 1	759	0.2803	0.4494	0	1.00
EducBA (%)	Education B.A. =1	759	0.6421	0.4796	0	1.00
EducMA (%)	Education M.A. =1	759	0.0894	0.2855	0	1.00
EducPhD (%)	Education Ph.D. =1	759	0.0200	0.1401	0	1.00
EducCA (%)	Education Candidate=1	759	0.0253	0.1573	0	1.00
EducOther (%)	Education other =1	759	0.0734	0.2610	0	1.00
UnderEcon	Undergraduate major in economics =1	759	0.1602	0.3670	0	1.00
GradEcon	Graduate major in economics = 1	759	0.0267	0.1613	0	1.00
YrsPos	Years in current teaching position	714	10.06	7.65	0.10	39.00
YrsTeachEcon	Years teaching economics	725	10.50	8.38	0.00	39.00
LrnNCEE	Learned economics at a NCEE workshop =1	759	0.1121	0.3157	0.00	1.00
LrnJA	Learned economics at a Junior Achievement workshop =1	759	0.2603	0.4391	0.00	1.00
LrnSelf	Learned economics on your own =1	759	0.4445	0.4972	0.00	1.00
LrnJob	Learned economics on your job =1	759	0.2069	0.4053	0.00	1.00
LrnOther	Learned economics through other =1	759	0.1749	0.3801	0.00	1.00
GDP (Bill US\$ PPP)	Gross Domestic Product in Billions of U.S. dollars purchasing power parity	759	30.86	39.06	2.26	174.60
Unemploy	Unemployment rate	759	10.30	8.23	0.70	30.40
Inflate	Rate of inflation	759	55.20	177.87	4.00	1061.00

Source: 1995-1999 CEEP

**Table 3. OLS Coefficients: The impact of Demographic and Human Capital Variables on Economic Literacy**

Dependent Variable: Percentage of questions from TEL pretest answered correctly, Percentage of questions from TEL with concentration answered correctly

Variable	1. % correct total TEL		2. % correct GDP		3. % correct Tax	
	$\beta$	Std. Err.	$\beta$	Std. Err.	$\beta$	Std. Err.
Constant	0.5270***	0.0206	0.5875***	0.0341	0.3626***	0.0339
Male	0.0023	0.0109	0.0160	0.0182	-0.0071	0.0181
EducBA	0.0594***	0.0141	0.0830***	0.0229	0.0739***	0.0228
EducMA	0.1065***	0.0231	0.1955***	0.0339	0.1306***	0.0337
EducCA	0.1260***	0.0376	0.2169***	0.0550	0.0852	0.0547
EducPh.D <sup>a</sup>	0.0675 <sup>#</sup>	0.0396	-0.0400	0.0630	0.0289	0.0627
UnderGEcon	0.0174	0.0156	0.0952***	0.0234	0.0155	0.0234
GradEcon	0.0123	0.0400	-0.0472	0.0553	0.00002	0.0550
YrsTeachEc	0.0035***	0.0012	0.0033 <sup>#</sup>	0.0020	0.0055***	0.0020
YTECMiss	-0.0800***	0.0127	0.0188	0.0205	-0.0217	0.0203
LrnNCEE	-0.0140	0.0163	0.0589***	0.0269	-0.0193	0.0268
LrnJA	0.0514***	0.0124	-0.0004	0.0201	0.0350 <sup>#</sup>	0.0201
LrnSelf	0.0136	0.0108	-0.0496***	0.0177	-0.0247	0.0176
LrnJob	0.0424***	0.0137	0.0550***	0.0224	0.0796***	0.0223
LrnOther	-0.0078	0.0144	-0.0440**	0.0221	0.0251	0.0220
1995	-0.0240	0.0169	-0.0013	0.0286	-0.0047	0.284
1996	-0.0785***	0.0184	-0.0884***	0.0293	-0.0401	0.0291
1997	-0.0036	0.0173	-0.0481 <sup>#</sup>	0.0293	-0.0154	0.0291
1998 <sup>b</sup>	0.0115	0.0176	0.0147	0.0300	-0.0036	0.0298
<b>N</b>	655		712		711	
<b>R<sup>2</sup></b>	0.2619		0.1244		0.0800	

Source: 1995-1999 NCEE

a: The benchmark for education is education Other.

b: The benchmark for year is 1999

# sig. at 0.10

\*\* sig. at 0.05

\*\*\* sig. at 0.01

**Table 4. OLS Coefficients: The impact of Demographic and Human Capital Variables on Economic Literacy**

Dependent Variable: Percentage of questions from TEL (with concentration) answered correctly

Variable	1. % correct Inflation		2. % correct Labor		3. % correct Market	
	$\beta$	Std. Err.	$\beta$	Std. Err.	$\beta$	Std. Err.
Constant	0.5643***	0.0399	0.4736***	0.0348	0.6442***	0.0294
Male	-0.0032	0.0213	0.0216	0.0186	-0.0130	0.0157
EducBA	0.1029***	0.0267	0.0706***	0.0233	0.0469	0.0197
EducMA	0.1199***	0.0396	0.1390***	0.0345	0.0686***	0.0292
EducCA	0.1534**	0.0643	0.1499*	0.0560	0.1164***	0.0474
EducPh.D <sup>a</sup>	0.1096	0.0737	0.0801	0.0642	0.0781	0.0543
UnderGEcon	0.0435	0.0274	0.0496#	0.0238	0.0080	0.0202
GradEcon	0.0031	0.0647	0.0638	0.0564	0.0465	0.0477
YrsTeachEc	0.0024	0.0023	0.0035	0.0020	0.0024	0.0017
YTECMiss	0.0227	0.0239	-0.0641***	0.0208	-0.0484**	0.0176
LrnNCEE	0.0107	0.0314	-0.0633**	0.0274	-0.0200	0.0232
LrnJA	0.0558**	0.0235	0.0025	0.0205	0.0894***	0.0173
LrnSelf	-0.0139	0.0206	0.0502***	0.0180	0.0078	0.0152
LrnJob	0.0316	0.0262	0.0499**	0.0228	0.0556***	0.0193
LrnOther	0.0230	0.0258	-0.0100	0.0225	0.0317#	0.0190
1995	-0.0124	0.0334	-0.0138	0.0291	-0.0946***	0.0246
1996	-0.0757***	0.0343	-0.0272	0.0299	-0.0736***	0.0253
1997	-0.0438	0.0342	0.0238	0.0299	-0.0056	0.0251
1998 <sup>b</sup>	-0.0137	0.0351	0.0318	0.0306	-0.0006	0.0259
N	712		712		712	
R <sup>2</sup>	0.0494		0.1250		0.1851	

Source: 1995-1999 NCEE

a: The benchmark for education is education Other.

b: The benchmark for year is 1999

# sig. at 0.10

\*\* sig. at 0.05

\*\*\* sig. at 0.01

**Table 5. OLS Coefficients: The impact of Country Specific Macroeconomic Measures on Economic Literacy**

Dependent Variable: Percentage of questions from TEL (with concentration) answered correctly  
 The model includes all the demographic and human capital variables plus the country specific macroeconomic variables listed

Variable	1. % correct TEL		2. % correct GDP		3. % correct Taxes	
	$\beta$	Std. Err.	$\beta$	Std. Err.	$\beta$	Std. Err.
<b>With Only:</b>						
GDP <sub>t</sub>	-0.00009	0.00012	0.00003	0.0002	-0.00107***	0.0002
GDP <sub>t-1</sub>	-0.0008***	0.0003	-0.00018	0.0006	-0.0033	0.0005
$\Delta$ GDP <sub>(t-t-1)</sub>	0.0065	0.0188	0.1246***	0.0303	0.0795**	0.0299
Inflation <sub>t</sub>	0.000015	0.00003	0.00019***	0.000005	-0.00009**	0.00005
Unemployment <sub>t</sub>	0.00375***	0.00097	0.00736***	0.0016	0.0120***	0.0015
<b>With Both</b>						
GDP <sub>t</sub>	-0.00011	0.00012	-0.00011	0.0002	-0.00103***	0.0002
Inflation <sub>t</sub>	0.00002	0.00003	0.0002***	0.000005	-0.00005	0.00005
$\Delta$ GDP <sub>(t-t-1)</sub>	0.00509	0.0180	0.1225***	0.0291	0.0706***	0.0291
Unemployment <sub>t</sub>	0.00357***	0.0014	0.0102***	0.0018	0.0097***	0.0017

Source: 1995-1999 NCEE

# sig. at 0.10

\*\* sig. at 0.05

\*\*\* sig. at 0.01



**Table 6. OLS Coefficients: The impact of Country Specific Macroeconomic Measures on Economic Literacy**

Dependent Variable: Percentage of questions from TEL (with concentration) answered correctly  
 The model includes all the demographic and human capital variables plus the country specific macroeconomic variables listed

Variable	1. % correct Inflation		2. % correct Labor		3. % correct Markets	
	$\beta$	Std. Err.	$\beta$	Std. Err.	$\beta$	Std. Err.
<b>With Only:</b>						
GDP <sub>t</sub>	-0.00067***	0.0002	-0.00009	0.00021	0.00022	0.00018
GDP <sub>t-1</sub>	-0.00245***	0.0006	0.00046	0.00061	0.00108**	0.00050
$\Delta$ GDP <sub>(t-t-1)</sub>	0.07907**	0.0349	-0.0841**	0.0311	-0.09400***	0.0254
Inflation <sub>t</sub>	-0.00003	0.00006	0.000005	0.00005	-0.00005	0.00004
Unemployment <sub>t</sub>	0.0102***	0.0018	0.00442***	0.0016	0.0009	0.0014
<b>With Both</b>						
GDP <sub>t</sub>	-0.00066***	0.00025	-0.00016	0.00022	0.000269	0.00018
Inflation <sub>t</sub>	-0.000007	0.00006	0.00001	0.00005	-0.00006	0.00004
$\Delta$ GDP <sub>t</sub>	0.0767***	0.0344	-0.0848***	0.0311	-0.0941***	0.0253
Unemployment <sub>t</sub>	0.0099***	0.0020	0.0029#	0.0018	0.00053	0.0015

Source: 1995-1999 NCEE

# sig. at 0.10

\*\* sig. at 0.05

\*\*\* sig. at 0.01

## **Appendix**

### **The Test of Economic Literacy: Version B**

The assessment tool used to measure economic understanding and economic literacy for this project is the Test of Economic Literacy: Version B. The full test includes 46 questions covering scarcity, opportunity costs, markets, economic systems, economic policy and economic outcomes and can be viewed by referencing Soper, J.C and W. B Walstad (1987) *Test of Economic Literacy, Examiner's Manual 2<sup>nd</sup> Ed.* New York:Joint Council on Economic Education. For our research, we divided the questions by the fundamental economic content in the question. The concentrations and the questions corresponding to those concentrations from the TEL:Version B are listed below.

#### ***Gross Domestic Product***

- 26) Gross National Product is a measure of...
- 27) The total output of the economy is bought by which of these groups of spenders?
- 28) The maximum Gross National Product a nation possibly could produce in any one year is limited by its...
- 29) If from time to time total spending declines relative to productive capacity, the growth rate of the economy over a long period will be...
- 31) During what period was Econoland in a recession? (Includes Graph of business cycle)
- 36) An increase in aggregate demand would tend to result from a government reduction in...
- 45) Which of the following best measures a nation's standard of living over time?

### ***Labor & Unemployment***

- 6) The specialization of labor results in...
- 11) Joining a union and electing representatives to negotiate with the employer is referred to as ...
- 17) “Americans are a mixed-up people. Everyone knows that baseball is far less necessary than food and steel. Yet the pay ball players a lot more money than farmers and steelworkers.” Why?
- 21) In a market economy, high wages depend primarily on...
- 38) If the economy has stable prices, but high unemployment. Which combination of government policies is most likely to reduce unemployment?
- 39) If there is full employment and the federal government increases its spending with out increasing its tax revenue, there will be...

### ***Markets***

- 7) Which of the following is the most essential for a market economy?
- 10) In a market economy, the social purpose of profits is to...
- 14) The demand for a factor of production depends mainly on ...
- 15) As more sewage processing plants are built and put into operation, more fertilizer may be produced as a by-product. If that happens, fertilizer will be...
- 18) A Nebraska corn farmer sells his crop at the current market price. This farmer’s action will...
- 19) A newspaper reports, “Coffee Growers’ monopoly broken into several competing firms.” If this is true, we would expect the coffee-growing industry to...
- 20) If you saw a headline that read, “Acme widget corporation raises prices: rest of widget industry expected to follow.” It is likely that Acme Widget Corporation is in an industry that has...

### ***Money & Inflation***

- 13) If your annual money income rises by 50% while prices of the things you buy rise by 100%, then your...
- 32) The rate of inflation was greatest during which period? (Graph of CPI)
- 33) Unexpected inflation is most likely to benefit...
- 34) When commercial banks increase their loans to businesses and consumers, this usually results in ...
- 35) Which of the following monetary policies would be most effective in fighting high inflation?
- 38) The economy has stable prices, but high unemployment. Which combination of government policies is most likely to reduce unemployment?

### ***Taxes***

- 16) If the government were to levy a tax of one dollar on every pair of pants sold, which of the following would most likely result?

STATE TAX TABLE

Income	Percentage Rate	Tax Amount Minimum	Tax Amount Maximum
\$0 - \$10,000	0	\$0	\$0
\$10,001-\$20,000	10	\$1,000	\$2,000
\$20,001-\$30,000	20	\$4,000	\$6,000
\$30,001-\$40,000	30	\$9,000	\$12,000

- 24) The tax in the table above is a?
- 25) Which taxes are most likely to change the pattern of consumer choice among various products?
- 37) One reason the federal government might reduce taxes is to...
- 41) Which of the following statements on tariffs is true?
- 42) Reducing tariffs usually will...
- 43) To correct a balance of trade deficit, many members of Congress want to increase import tariffs. If this occurs, then we should also expect...