

## 1 Learn the Skill

Not every cause-and-effect relationship is simple. Many causes can contribute to a single result, and a single event or situation may result in multiple effects. Knowing how to identify **multiple causes and effects** will help you form a better understanding of economics and the complex factors that affect the economy.

As with other areas of the GED® test, questions about multiple causes and effects will test your ability to interpret information at various Depth of Knowledge levels through the use of complex reading skills and thinking skills.

## 2 Practice the Skill

By practicing the skill of identifying multiple causes and effects, you will improve your study and test-taking abilities, especially as they relate to the GED® Social Studies Test. Study the information below. Then answer the question that follows.

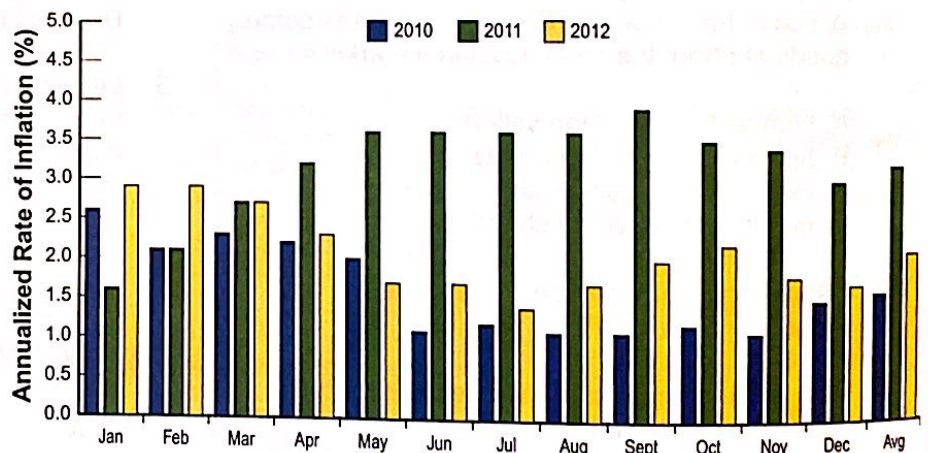
**a** Inflation causes a chain reaction of events, such as rising prices and fewer purchases.

**b** Inflation is the cause. Wars, problems with the food supply, and political unrest are some of the effects.

Two important areas of the study of macroeconomics are inflation and deflation. **a** Inflation occurs when the supply of money exceeds the goods and services available. This causes the value of the money to fall and prices to rise. This, in turn, discourages people from making purchases. Inflation's effects are felt in all sectors of the economy and all segments of society. Deflation occurs when prices fall and the value of money rises. Negative inflation is the same as deflation.

**b** Inflation and the economic instability it spawns have been known to cause wars, problems in the food supply, and political unrest. Developing nations are in the most danger from inflation.

U.S. INFLATION RATES BY MONTH AND YEAR (2010–2012)



### MAKING ASSUMPTIONS

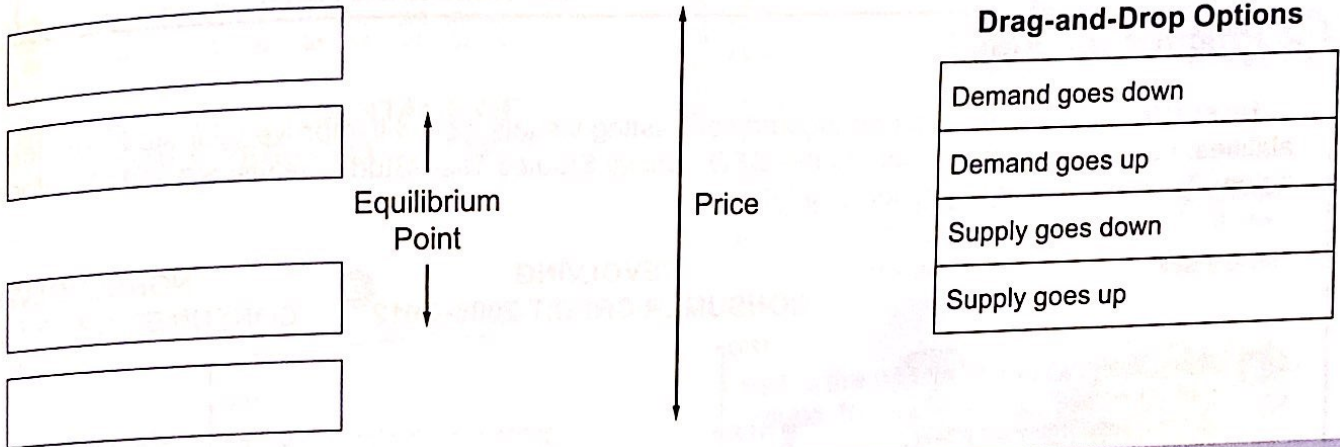
You might assume that having more money than can be spent is good for an economy. The information on this page explains why this is not true.

- Which of the following was most likely true in mid-to-late 2011?
  - higher prices, reduced consumer spending, and increased value of money
  - higher prices, reduced consumer spending, and political unrest
  - increased demand for goods, higher prices, and political unrest
  - reduced consumer spending, deflation, and political unrest

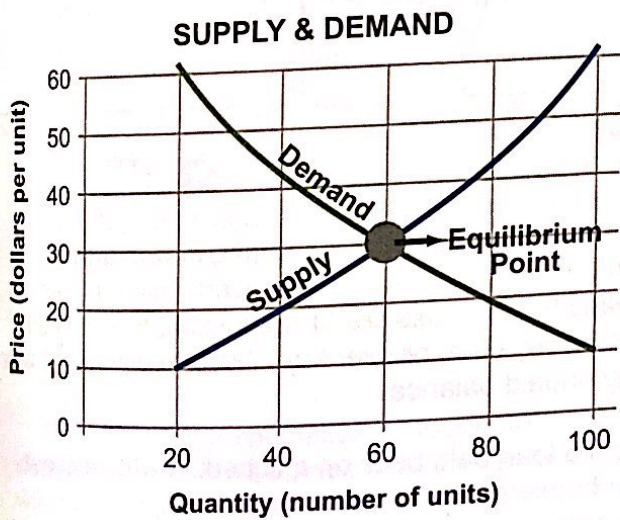
★ **Spotlighted Item: DRAG-AND-DROP**

**DIRECTIONS:** Read the passage on supply and demand below the drag-and-drop. Then, read the drag-and-drop question and complete the diagram by placing the drag-and-drop options into the appropriate boxes.

2. Drag and drop the effects on supply and demand when prices rise above or fall below the equilibrium point, or the point at which supply and demand are equal, into the correct places in the diagram above and below the equilibrium point.



**DIRECTIONS:** Study the graph and information, read the questions, then choose the **best** answer to each question.



The cause-and-effect relationship between supply and demand is a strong determining factor of prices. According to the economic laws of supply and demand, people will pay more for something they want when less of it is available. Alternatively, if there is more of a supply of a good or service than people demand, the supplier will lower the price to coax people into buying more of it. The point at which the supply of an item is set in response to an equality of supply and demand is called the equilibrium point. At prices above the equilibrium point, demand drops.

If the price becomes too high, demand may disappear completely. However, if the price becomes too low, the seller will be unable to make a profit and will stop producing the item.

Supply and demand are themselves the effects of other causes. For example, the effects of inflation can decrease demand and force down an item's price. Inflation can also raise the cost of producing an item, resulting in a higher price, which can also lead to a decrease in demand.

3. Which of the following statements is true?
- Supply, demand, and inflation
  - A. are each basic causes of economic activity.
  - B. do not influence the economy.
  - C. operate independently of one another.
  - D. are each influenced by many causes.
4. Based on the information, which of the following needs to exist for the law of supply and demand to function freely?
- A. competition
  - B. government regulation of prices
  - C. inflation
  - D. a growing economy