- Analyze and explain how inflation affects consumers.

inflation

- A rise in the average price of goods and services in the macroeconomy.
- Defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase.
- As inflation rises every dollar buys a smaller percentage of a good or service.
- Inflation can skew GDP calculation because GDP does not take it into account. Why GDP is not usually used alone to measure economic performance.

Purchasing power of money

- Real goods and services that money can buy determines the value of money.
- A dollar today is not the same as a dollar in the past.
- How does a drop in the value of dollar (inflation) skew GDP?
- Inflation can make GDP look higher on paper but that higher GDP does not represent higher output
- To get a true measure of the nations output in a given year inflation must be taken into account.

- Inflation is a general rise in prices which can be cause by a variety of factors
  - IPhone prices go up so does Samsung and LG
  - The supplies of glass raised prices
  - Supplies or the supplies of glass raises prices
  - Gas prices went up.
- Think domino effect


INFLATION
THE ECONOMY
INFLATION
INFLATION


1972
1992
2012

CPI

- Consumer price index- measure in the change of price over time of a specific group of goods and services that are used by the average household
  - Economists do this every month to keep track of inflation, the reports can be found on the news and online from the Bureau of Labor Statistics

- Market basket: Representative group of goods and services used to compute CPI. It includes about 80,000 specific goods and services under general categories such as food, housing, transportation, apparel, education, recreation, medical care, and personal care.
- The basket is updated every 10 years to reflect current spending patterns.

- How is the reference period determined?
- Base year- a year used as a point of reference to compare inflation from one year to the next
- The current standard reference base period is 1982-84=100. All price changes are measured from a base that represents the average index level of the 36 month period encompassing 1982, 83,84. prior to the release of the CPI January 1988, the stand reference base was 1967=100
- The CPI for a basket of goods in 82-84 was $10 as of 2015 it is $11.65

PPI

- Producer price index-measure in the change in price over time that American producers charge for their goods and services
- Includes producers buying factors of production, includes prices charged to consumers for final goods and services
- PPI usually increases before CPI