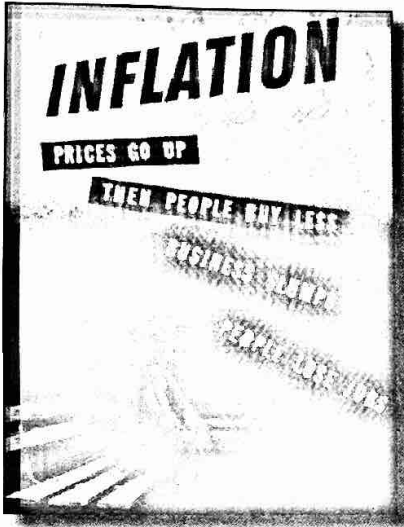


Inflation



Inflation is a rise in the amount of money in the economy. Inflation usually brings about a rise in prices. This lowers the value of the dollar, meaning that a dollar buys less than it did before. Inflation can come about any time too much money is in circulation. The Federal Reserve often triggers inflation by buying bonds or lowering interest rates. Inflation is not rising prices as many people believe; inflation causes rising prices.

A recession is the opposite of inflation. A **recession** is when there is less money in the economy, causing a decline in demand. This will usually increase the value of a dollar, meaning that a dollar will buy more. A **depression** is simply a severe recession that results in a decline in business, high unemployment, and lowered stock market values.

Increase in demand
 Increase in production
 Wages rise
 Unemployment declines
 Dollar is worth comparatively less

TOO LITTLE MONEY

Recession

Note that this is a circular cycle. To correct one situation, we usually go to the other!

Inflation

TOO MUCH MONEY

Decrease in demand
 Decrease in production
 Wages fall
 Unemployment rises
 Dollar is worth comparatively more

Name: _____

Date: _____

Inflation: Questions

Answer the following questions in complete sentences.

1. What organization most affects the money supply?

2. Why is there a decrease in production during a recession?

3. Why is there an increase in production during inflation?

4. Why is the dollar worth comparatively less during inflation?

5. Why is the dollar worth comparatively more during a recession?

6. Explain why the cycle is circular.

Inflation Case Study: Real Estate

Balanced economy: No inflation



In this economy, demand for houses is three (three people want houses). Supply is three houses, and the cost of the houses stays reasonable.

Recession

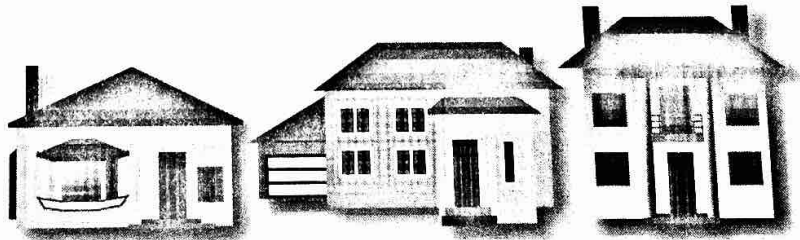


Supply = _____ Demand = _____

1. Does this economy have too little or too much money? _____
2. Does this cause the cost of houses to go up or down? _____
3. Why? _____

4. Does this mean that the value of the dollar has gone up or down? _____

Inflation



Supply = _____ Demand = _____

5. Does this economy have too little or too much money? _____
6. Does this cause the cost of houses to go up or down? _____
7. Why? _____

8. Does this mean that the value of the dollar has gone up or down? _____

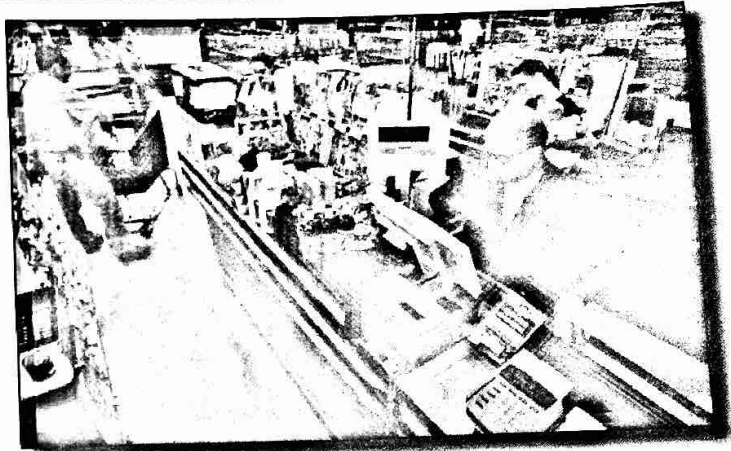
Name: _____ Date: _____

What Did Things Cost?

How to compute percent of change in cost:

$$\frac{x}{100} = \frac{\text{Change in price}}{\text{Past price}}$$

Inflation, an increase in the money supply, causes higher prices. These higher prices diminish the buying power of the dollar. Use grocery ads or cash register receipts or visit a local grocery store to find out the exact cost of the items listed below. Then use the formula to compute the percent of change in price (due to inflation) from 1970 to the present. Show your calculations on the back of this page or on a sheet of scratch paper.



Item	Price in 1970	Present Price	Percent of Change
1 lb. apples	\$0.25		
1 lb. whole chicken	\$0.46		
1 dozen eggs	\$0.67		
1 quart milk	\$0.36		
1 lb. pork chops	\$1.30		
1 lb. sugar	\$0.13		
tea bags (48)	\$0.61		
1 lb. flour	\$0.12		
1 lb. margarine	\$0.33		
1 lb. coffee	\$0.91		

Prices taken from *The Value of a Dollar: Prices and Incomes in the United States, 1860–2009*, edited by Scott Derks (Amelia, NY: Grey House Pub.), 2009. Prices are New York City averages from 1970.

Name: _____ Date: _____

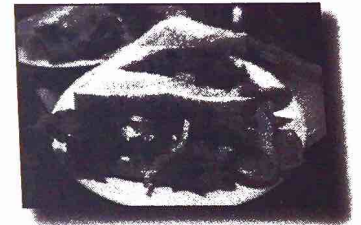
Case Study: Menus

The Dollar Deli Menu

Grilled Cheese Sandwich	\$3.00	\$3.10
Ham and Cheese Sandwich	\$3.75	\$3.50
Turkey Club	\$4.50	\$4.00
Roast Beef Sandwich	\$4.25	\$4.50
Potato Chips	\$1.00	\$0.50
French Fries	\$1.25	\$0.75
Giant Cookie	\$1.50	\$1.20
Fresh Fruit	\$0.75	\$1.00
Soda	\$1.25	\$1.10
Milk	\$1.00	\$0.90
Lemonade	\$1.05	\$1.50

"Where your dollar always buys more . . . good food!"

The Dollar Deli decided to change its prices. Use the menu above to answer the following questions.



- Which menu items inflated in price?

- Which item inflated the most?

- Which menu items deflated in price?

- Which item(s) deflated the most?

- You order a grilled cheese sandwich, potato chips, soda, and a giant cookie. What was the percentage of change in this lunch from the old menu to the new menu?

- Was this change (question 5) an inflation or deflation in price?
