Inflation and Prices

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

- 1. What is inflation? How is it measured?
- 2. Explain how disinflation, reflation, and hyperinflation differ.
- 3. What is deflation?
- 4. How does demand-pull inflation differ from cost-push inflation?
- 5. Explain how inflation and employment levels are related.
- 6. How does inflation affect spending, saving, and investing decisions?
- 7. Explain what is meant by the time value of money.

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IN DEPTH: Inflation and Prices

When prices go up, your purchasing power goes down. Identify <u>two items</u> you or your family buys regularly, such as gasoline for a car. Then, for each item, answer the questions that follow.

Two Items:	and	
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1. Has the price gone up or down in the last year?

- 2. How much is the price change (in dollars and cents)? What percentage increase or decrease is this amount?
- 3. What effect has the price change had on your spending habits? Have you purchased less of that product? Have you purchased less of something else in order to keep buying that product?
- 4. In the long run, what will you do if the price keeps rising? For example, will you find substitutes, stop using the product, or give up something else in order to be able to buy this product?