Inflation –The Value of Money

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SUBJECT(S): Economics

GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:

In this lesson, we will look at the concept of inflation. In particular, the lesson will introduce students to the concept of money supply and the changing value of money over time. Students will look at the causes of inflation and their effect on purchasing power. After reading a short description of the Consumer Price Index (CPI), students will work through problems on purchasing power over time.

NBEA STANDARD(S):

- Economics, IV. Markets and Prices

RELATED ARTICLES:

- "Will Facebook's Libra Legitimize Cryptocurrency?"
- "Why It Pays to Save: Knowing the Time Value of Money"
- "Venezuela's Eugenia Carmona on the 'Complete Chaos' Afflicting Her Country"
- "The 'Bitcoin Boy' and Other News from the Land of Digital Currency"
- "That Crazy Cryptocurrency"
- "Jeremy Siegel: Why Investors Shouldn't Panic Over Stock Market Volatility"
- "Immigration Reform in America: The People, the Proposals and the Economics"
- "GDP: The Rock Star of Economic Indicators"
- "Economic News from Davos, Switzerland: How Much Does that Big Mac Cost?"

Objectives/Purposes: The purpose of this lesson is for students to understand the concept of inflation and its effects on markets.

- Students will be able to define *inflation.*
- Students will be able to explain the main causes of inflation.
- Students will be able to explain the strengths and weaknesses of the CPI as a measure of inflation.

Other Resources/Materials:

For Teachers:

- Internet Access
- Printer/Copier
- Access to Chalkboard/Whiteboard
- Chart Paper
- Markers

Activity:

The lesson is divided into four parts: (1) Introduction, (2) Guided Reading, (3) Exploration Activity, and finally (4) Closing

1. Introduction (10-20 mins)

Begin the lesson by asking students, "What is inflation?" Often students will have very little prior knowledge of the term. Let students talk generally about what it means to "inflate" something. Use this discussion to introduce the concept of *inflation* – the "inflating" of prices of goods and services.

Next, give the students a hypothetical example. Most students are familiar with the game Monopoly. That said, ask students to briefly explain how the game works for their peers who might not have experience with the game. Encourage students to specifically mention how the game starts (everyone given a certain amount of money), and the price of different properties. Once students have an understanding of the game, ask them what would happen if everyone received *double* the starting money. What would happen to the price of a property? Would people be willing to pay more or less? Are people better off? Why or why not?

Shift the conversation from the game to reality. Ask students what they know about money. Money, in economic terms, is something used to exchange goods and services, which acts as a store of value.

In order to get a sense of students' existing knowledge, ask them where money comes from. How does money supply work in the U.S. economy? If necessary, provide students with a brief background, talking about the shift from gold-reserve to fiat money (i.e. originally every bill could be "cashed" in for physical gold. Today this is no longer the case. Money is "fiat"—or simply created by government decree). Once students understand the idea of fiat currency, bring them back to the monopoly example. What would happen if the U.S. Treasury started printing extra bills? What if the government doubled everyone's money? Is anyone better off than before? Why or why not? Encourage students to think about the price of goods and services.

When the price of goods and services increase, we call this inflation.

Increasing the money supply is one of the major causes of inflation. (For example, wartime countries printing money to pay for the war effort). The other main cause of inflation is the cost of inputs
Ask students if they know anything about the price of gas. What has happened in the past 10 years? Why? What causes this inflation? (i.e. Rising price of inputs).

Once students have a grasp on what inflation means, ask students how we could measure inflation. How do we know if prices are going up? Students will likely start at the practical level: we know because we go to the store and see prices increase. Ask students more detailed questions. How long do you have to see a price increase before it counts as inflation? How much of an increase? What if prices are only up in one part of the country? What if prices increase for milk and eggs, but not for movie tickets and mp3s? Get students to really think about the complex problem of measuring inflation.

Feel free to break students into small groups and have them brainstorm their own measures of inflation. Give each group chart paper and markers, and have them come up with their own strategy for measuring increasing prices. Have groups share out.

2. Guided Reading (5-15 mins)

After going over students' definitions, have students read through the attached article. In this article they will be introduced to the CPI. As they read, ask students to compare their strategies to the official government strategy for measuring inflation. What are the similarities? What are the differences?

Once students finish reading, ask them to define the CPI. Next, ask students to share their answers to the guiding questions listed above.

Ask students if they think this is a good measure of inflation. What problems might arise? (e.g. issues of sampling—both certain demographics of people, and certain types of products.)

3. Exploration activity (10 mins)

After this short discussion, demonstrate the relationship between purchasing power and inflation by using some online materials.

For example, the bureau of labor statistics provides a CPI calculator. Ask the students to graph the results of inflation at five year increments. Start with 1950 vs. 1955. Then 1950 vs. 1960, then 1950 vs. 1965, etc. This graph will show students how much inflation has increased in the past 60 years.

Similarly, several interesting resources can be found at FoodTimeLine.org. It is often best to let the students choose which information to follow up in more depth, but the tables detailing prices for Corn Flakes and Coca-Cola are good conversation starters.

4. Closing (1-10 mins)

With the remaining time, repeat the main concepts of the lesson. Inflation is a measure of increasing prices in a market. Inflation usually occurs from an increase in money supply or an increase in the cost of inputs. In the U.S., inflation is measured by the consumer price index, a sample of the price of many common goods and services.

Practice Outside of the Classroom:

Have students keep a journal, documenting the price of familiar goods and services throughout the year. Use these journals to create your own consumer price index. What trends do you notice? Which goods are more susceptible to inflation? Also, encourage students to read the following Wharton Global Youth Program articles:

- "Inflation: What It Is, Where It Comes From and How It Can Bite You"
- "The Economy: When Will Happy Days Be Here Again?"

What Worked and What I Would Do Differently

If you can spare the time, let students really work on creating their own CPI baskets. What kinds of goods or services are "representative" of everyday life? This can be a great way to get students thinking beyond their own immediate environment (particularly if groups are diverse).