

Name: \_\_\_\_\_ Period: \_\_\_\_\_

### Unit 5 Lesson 6 What is inflation?

Word Bank: purchasing power (used twice), inflation rate, market basket, aggregate, deflation, prices, inflation, supply, demand, Consumer Price Index (CPI), hyperinflation, Demand Pull, Quantity theory, Cost Push inflation, unemployment, savings, Real wages, savings

- \_\_\_\_\_ is a general increase in \_\_\_\_\_. It's when aggregate \_\_\_\_\_ increases more than aggregate \_\_\_\_\_.
- \_\_\_\_\_: the sum total of all.
- \_\_\_\_\_: prices go down
- During a time of inflation \_\_\_\_\_ goes down.
- The way to measure inflation is to use a price index which is a measurement of the average price of a group of items.
- The \_\_\_\_\_ is THE price index created and used by the Bureau of Labor Statistics (BLS) it measures the \_\_\_\_\_ which is a collection of goods and services the average urban consumer buys.
- \_\_\_\_\_ is the percentage of change from one year to the next
- Core inflation rate: inflation of all things except the effects of food and energy prices
- \_\_\_\_\_: excessive inflation that is out of control.

The 3 causes of inflation:

- \_\_\_\_\_: an increase in the money supply can cause inflation.
- \_\_\_\_\_: demand for goods rises faster than the amount of supply
- \_\_\_\_\_: when the costs of production goes up, prices will. Increase in price in natural resources or wages can cause this type of inflation. So producers raise prices to meet increased costs.

Cost push inflation can cause a wage price spiral, which is when wages go up causing prices to go up, which causes workers to ask for higher wages.

Also, when \_\_\_\_\_ falls to very low levels, we get an increase in prices.

- Inflation is natural. A healthy economy expects to have inflation rates from 3 to 5%. It signals growth. However...

There are five NEGATIVE aspects of inflation.

- 1. \_\_\_\_\_ of the dollar goes down
- 2. \_\_\_\_\_ goes down even though nominal wages goes up
- 3. Interest Rates go up to try and slow down spending
- 4. \_\_\_\_\_, the amount of income not spent, is worth less
- 5. Production costs go up