Name ______________________ Date ____________ Class ____________

Economics Activity 23

Measuring Inflation

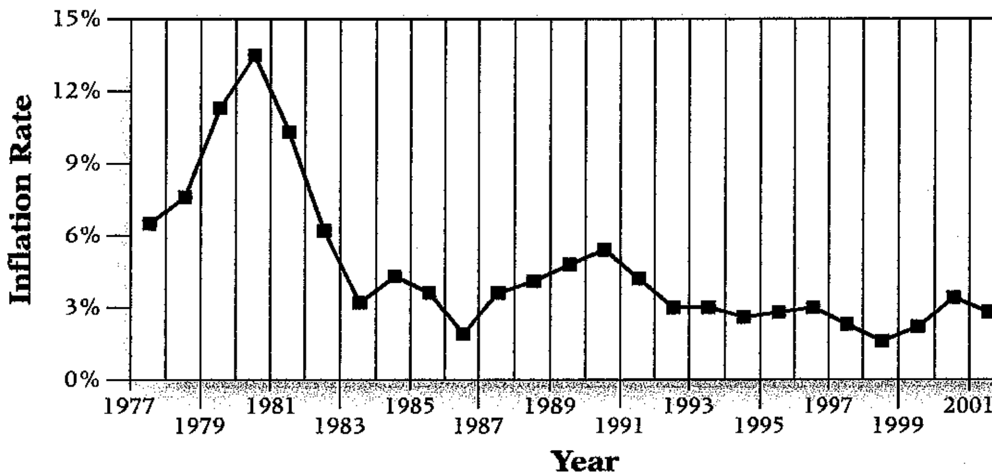
Inflation is a sustained rise in the general level of prices. When prices rise, **purchasing power** goes down. That is, your dollars cannot buy as much as they could when prices were lower.

To measure inflation, government economists must first determine the average level of prices. Then they can compare average prices over time to see how they change. They select goods and services that typical families buy regularly. This "market basket" includes food, transportation, housing, and other necessities. Officials gather the prices of these items from several thousand stores. Then they average the prices to create the **consumer price index (CPI).**

Economists use the CPI to calculate the **inflation rate.** This is the percentage rise in the general level of prices over a period of time. For example, a 2 percent inflation rate for this year would mean that prices generally rose by 2 percent from last year's level.

CHAPTER 23

DIRECTIONS: Study the graph below. Answer the following questions on a separate sheet of paper.



Source: http://www.census.gov/prod/2002pubs/01statab/prices.pdf and ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt

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1. What is inflation?
2. How does inflation affect purchasing power?
3. What does the graph show? What title would you give this graph?
4. In what year was inflation the highest?
5. Describe the general trend of inflation in the 1990s.
6. **CRITICAL THINKING ACTIVITY** Visit the Bureau of Labor Statistics online at stats.bls.gov. Click the "Inflation Calculator." Enter $100 and the years 1990 and 2001. Click "Calculate." What number did you get? What does it mean? Try a few more amounts and years, including the year you were born and today's year. What do your findings tell you about inflation over the years?