**KEY CONCEPTS AND SKILLS: Unit 2.3c – Inflation**

**Definitions:**

* **Inflation**: a sustained increase in the general price level
* **Deflation**: a sustained decrease in the general price level
* **Disinflation**: a reduction in the rate of inflation (although inflation may still be positive)
* **Consumer Price Index (CPI)**: a measure of the cost of living for a typical household; constructed by adding up the cost of a basket of goods and services and comparing it to a base year
* **Producer Price Index (PPI)**: an index of prices received by producers at various stages of the production process (e.g., inputs versus intermediate goods)
* **Core Inflation**: an inflation index that excludes agricultural and energy prices (which tend to be more volatile than other prices)
* **Stagflation**: when there is high unemployment and high inflation at the same time (e.g., after the oil supply shocks and agricultural failures in the 1970’s)

**Concepts and Applications:**

1. ***Measuring Inflation and Deflation***
2. Distinguish among inflation, deflation and disinflation.
3. Explain how a Consumer Price Index is calculated.
4. Explain how a Consumer Price Index is used to measure inflation and deflation
5. Explain why different income earners may experience different rates of inflation (i.e., different from the CPI)
6. Explain how inflation figures may not accurately reflect changes in consumption patterns and/or the quality of products purchased.
7. Explain how and why economists would modify the CPI to measure the core rate of inflation.
8. Explain what the producer price index measures and why it can be useful as a predictor.
9. ***Causes and Consequences of Inflation***
10. Explain the relationship among real income, nominal income and inflation.
11. Discuss the possible consequences of a high inflation rate.
12. Explain, using a diagram, the cause of demand-pull inflation.
13. Explain, using a diagram, the cause of cost-push inflation.
14. Explain why cost-push inflation is potentially more serious than demand-pull inflation.
15. Explain why governments target moderate and stable inflation instead of zero inflation.
16. ***Causes and Consequences of Deflation***
17. Discuss the possible consequences of deflation.
18. Explain why deflation is uncommon.
19. Using diagrams, explain the two possible causes of deflation and explain why one cause is considered “better” than the other.
20. ***(HL) Calculations***
21. Using data provided, construct a weighted price index.
22. Using data provided (price data or the GDP deflator), calculate the rate of inflation.
23. Using data provided (nominal income & CPI), calculate real income.
24. ***(HL) The Phillips Curve***
25. Discuss, using a Phillips Curve, the view that there is a possible trade-off between the unemployment rate and the inflation rate in the short run.
26. Explain how a shift in the short-run Phillips Curve can illustrate *stagflation*.
27. Discuss, using a long-run Phillips Curve, the view that there is no trade-off between unemployment and inflation in the long run.
28. Using the long-run Phillips Curve, discuss the full employment level of output.