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### Overview

**M**AKING SEVEN DOLLARS AN HOUR may sound like a lot of money to young people. They often have a hard time understanding that what is “a lot of money” depends on what they want to buy and how much those goods and services cost. Inflation affects the value of money. In this integrated unit, students discover the cause of inflation. They use graphing skills for statistical information. They sharpen their research skills by finding the cost of certain products over time. Throughout the unit, cooperative group learning enhances individual efforts.

### Teaching Activities

#### Lesson 1 Anticipatory Set

As an introduction to inflation, students will go on a shopping spree. Project **TRANSPARENCY 1, Shopping Spree**, on the overhead projector. Fill in the prices (see prices table page 13) with a dry erase marker.



### Objectives

- / Students define *inflation*.
- / Students identify the cause of inflation.
- / Students determine the effects of inflation on individuals and the economy.

### Time Required

4 One week

### Materials

- 2 Federal Reserve Bank of New York, *The Story of Inflation*, comic-style booklet
- 2 Transparency 1 **Shopping Spree Catalog**
- 2 HANDOUT 1 **Shopping List**
- 2 HANDOUT 2 **Inflation Cause & Effect Chart**
- 2 HANDOUT 3 **Cost of Products Research**
- 2 HANDOUT 4 **Graphing the Real and Nominal Cost of Products**

### Prices Table

Four-wheeler	\$2,000
Computer	\$400
Television	\$100
Playstation 2	\$100
Stereo	\$125
Jet Ski	\$2,700
Mall Gift Certificate	\$1,000

Distribute HANDOUT 1, **Shopping List**. Tell the students that they will be getting a large allowance. Ask them to select what they will buy with all of their money. Remind them that they can always save their money. They should then list those items and the prices, using Column A, and they should total all of the

expenditures to make sure that they have stayed within their limit. Take a few minutes to let a couple of the students tell others in the class what they will buy.

Now tell the students that a parent just got a promotion, so they are getting a raise in their allowance. Instruct them to go to Column B to see how much they are making as a result of their good luck. Ask the students to shop again—while making sure that they are not spending more than they have to spend. Once again, ask some students to tell the others what they have placed on their shopping lists. Ask the students:

- 1 Did any of you change what you had planned to buy? Why?

Let the students know that they have one last chance to shop. Instruct them to move to Column C and take note of their new, higher allowance. Wipe the transparency clean and fill it in again with the following prices:

Four-wheeler	\$11,200
Computer	\$1,300
Television	\$550
Playstation 2	\$350
Stereo	\$400
Jet Ski	\$7,300
Mall Gift Certificate	\$4,000

Have the students list what they would like to buy. To wrap up the exercise and review, have the students think about the relationship between prices and income. Ask a few questions:

- 1 How was your buying affected in Shopping Spree B?
- 1 How did the price increase in Shopping Spree C affect your buying?

### Lesson 2 Active Reading

Active reading is an important aspect of comprehension. Have the students work as



partners. Read *The Story of Inflation*, pages 1-9. During the reading they will complete the **Inflation Cause & Effect Chart**, HANDOUT 2. Discuss the chart as a group. Now have the students read pages 9-23. Discuss the relationship between prices, income, and inflation.

### Lesson 3 Integrating Technology

This research activity will give the students an opportunity to discover the impact of inflation over the period from 1980 to 1996 in the United States.

To begin the lesson, explain CPI, the Consumer Price Index. CPI is one measure of inflation. It is calculated by periodically looking at the prices of a basket of consumer goods. This basket includes things that most Americans buy—bread, gasoline, etc. When all of these prices begin to rise, we are experiencing inflation. To calculate inflation you must have a base year or starting point. CPI in the base year is always 100. If the CPI for the next year is 103, prices have risen by three percent.

Next, explain real versus nominal prices. Real prices represent only the value of the good. If you are looking at CPI, real prices are the prices in the base year. Nominal prices are the real prices plus the inflation rate. (Prices in the store are nominal.) Prices may rise without a change in real prices. This will be better illustrated as the students work through the following exercise.

In cooperative groups, the students will research the cost of common household products at each of the given years. Ask the students to complete HANDOUTS 3 and 4. Using the data collected, the students will then graph the information in Excel.

### Extension Activities

New learning always lends itself to writing opportunities. Try some of these ideas:

- ▮ Students will have fun creating their own “How to Stop Inflation” Brochure.

- ▮ Creative writing exercise: You are a \$20.00 bill. You have been in circulation for the last fifty years. Tell us about your travels and your experiences as your value has changed from year to year.
- ▮ Design your own comic strip to teach others about inflation.

### Conclusion

This integrated unit could be used with various age groups. Most young people have no interest in inflation until it affects them. Through simulation they can experience the effects of inflation and learn its causes.

### Economic Concepts

**Price level** The average cost of purchasing goods or services.

**Inflation** A general rise in the price level, caused by a rise in the supply of money without a proportional rise in the supply of goods produced.

**CPI** Consumer Price Index. A measure of inflation.

**Nominal Prices** Current market prices. These prices include the effects of inflation.

**Real Prices** Current market prices minus the rate of inflation.



TRANSPARENCY 1  
Shopping Spree Catalog



\$ \_\_\_\_\_



\$ \_\_\_\_\_



\$ \_\_\_\_\_



\$ \_\_\_\_\_



\$ \_\_\_\_\_



\$ \_\_\_\_\_

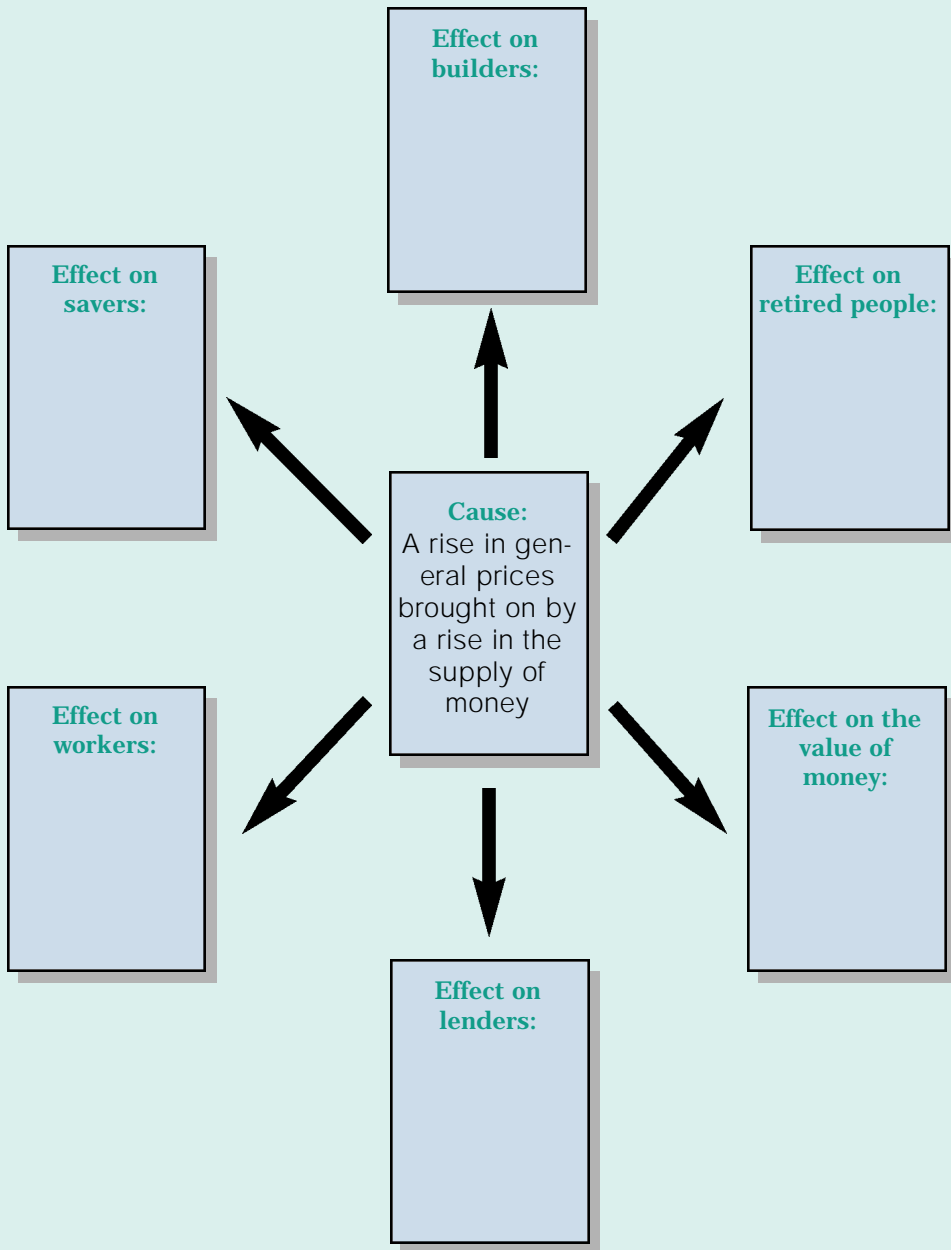


\$ \_\_\_\_\_





HANDOUT 2  
Inflation Cause & Effect Chart





HANDOUT 3  
Cost of Products Research

Research the cost of products listed below at each year. Complete the table. Go to <http://www.bls.gov/cpi>.

Click on: *Get detailed statistics*  
*Average Price Data*

Select **Q** fuel, oil, per gallon, **Q** gasoline, unleaded regular, **Q** bread, white, and **Q** milk, all types.

*Retrieve Data*

*More Formatting Options*

*Specify year range*

1980 to 1996

*Select one time period*

Choose January

*Retrieve Data*

Complete the nominal prices table to the right. Be sure to round off numbers to the nearest hundredth.

**Nominal Prices**

	fuel, oil	gasoline	bread	milk
1980				
1984				
1988				
1992				
1996				

Now complete the real prices chart. Go back to <http://www.bls.gov/cpi>.

Click on: *Get detailed statistics*  
*Inflation Calculator*

Go through the entire chart, finding the equivalent prices in 1996 dollars and filling in the chart below. For example: If the price of bread in 1980 is \$.50, enter .50 in the top box. Then click on 1980 in the top pull-down bar. Click 1996 in the bottom pull-down bar, and press calculate. Enter that number in the real prices chart at 1980-bread.

**Real Prices**

	fuel, oil	gasoline	bread	milk
1980				
1984				
1988				
1992				
1996				



## HANDOUT 4

## Graphing the Real and Nominal Cost of Products

Now take the prices you researched and calculated, and compare them in a line graph. Click on Excel.

**Nominal Prices**

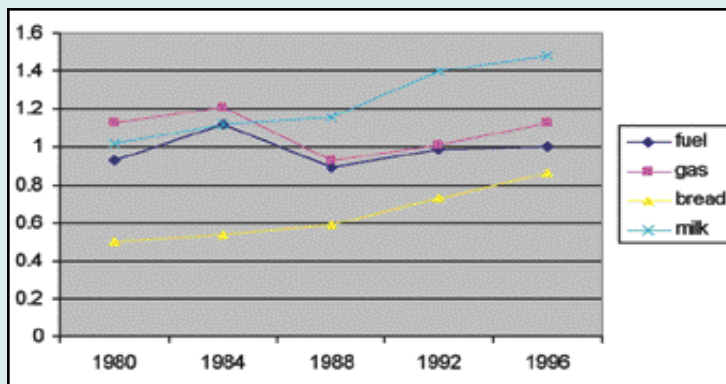
In row 2, column A, enter 1980. In row 3, column A, enter 1984. Continue down the rows with 1988, 1992, and 1996.

In row 1, column B, enter fuel. Continue across with gas, bread, and milk. Fill in the chart you have just created with the prices from your Nominal Prices worksheet.

After you have finished entering the data, highlight the entire chart.

At the top, click insert, then chart. Select a line graph in the Chart Type box. Then click finish. You should be able to see your prices charted.

Your finished line graphs should look like this:

**Real Prices**

Now we are going to look at the prices without inflation.

At the bottom of the screen, click on sheet 2.

In row 2, column A, enter 1980. In row 3, column A, enter 1984. Continue down the rows with 1988, 1992, and 1996.

In row 1, column B, enter fuel. Continue across with gas, bread, and milk. Fill in the chart you have just created with the prices from your Nominal Prices worksheet.

After you have finished entering the data, highlight the entire chart.

At the top, click insert, then chart. Select a line graph in the Chart Type box. Then click finish. Now you can see how the real prices have changed.

Do you see any kind of a pattern? Explain. \_\_\_\_\_

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