Teaching inflation? We have a plan!

Engage: The Fed explains…inflation

Inflation is an important economic indicator that is often misunderstood. Have your students listen to the Economic Lowdown podcast on inflation and answer the following questions:

1. How is inflation defined?
2. What causes inflation?
3. How does the Fed attempt to control inflation?
Teach: The basics of inflation

Reinforce the information in the podcast with the Classroom Economist’s Narrated Presentation on Inflation. Students often have a difficult time distinguishing between inflation and a change in the cost of living; The Fed Explains Inflation* video discusses the difference. Ask students the following questions:

1. Is an increase in price always due to inflation?
2. How does an increase in the money supply affect the price level?
3. What are three widely known measures of inflation?

*The video is also available in the Econlowdown Instructor Management System with a video quiz.

Practice: What causes inflation?

Tell students they will participate in an activity about the causes of inflation. In steps 21–29 of the lesson, students participate in an auction to learn how too much money can lead to inflation. Students may personalize their inflation experience through the my CPI tool and discover how inflation has changed over time with this lesson or during their own lifetimes with the Lifetime Inflation Activity.

Assess: Baskets, base years, and bias—constructing a student price index

In this activity, students will simulate how changes in the money supply in their classroom economy affect the price of a market basket of goods auctioned in their classroom. Students will then construct a price index using a simplified basket of teen-friendly goods and services. Using their market basket values, students will calculate a student price index and an inflation rate. Students will prepare a short paper or presentation analyzing the validity of using their student price index as a measure of inflation.