

Guided Reading Activity

Economic Instability

Lesson 2 *Inflation*

Review Questions

Directions: Read each main idea and answer the questions below. Refer to your textbook as you write the answers.

A. Measuring Prices and Inflation

Main Idea: Inflation is measured using a price index. The market basket, which compares the price of common goods and services with the price of the same goods and services in a base year, is commonly used to measure inflation.

1. What are inflation and deflation?

2. What are the steps involved to determine the CPI?

3. Why is hyperinflation damaging to the economy?

4. What other price indexes are used to measure inflation?

B. Causes of Inflation

Main Idea: There are several theories that explain the causes of inflation.

1. How might high demand cause inflation? What is this theory called?

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2. How might rising input costs cause inflation? What is this theory called?

3. Why might wages and prices affect each other in a loop of continuing inflation?

4. How could the actions of the Federal Reserve cause inflation?

C. Consequences of Inflation

Main Idea: Inflation has negative effects, such as distorted spending patterns, increased speculation, and distorted income distribution.

1. How does inflation distort the spending patterns of consumers?

2. How does inflation encourage speculation?

3. How does inflation distort how income is distributed?

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Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the question below.

What are the main causes and consequences of inflation?
