

**BUILDING BLOCKS STUDENT WORKSHEET**

# Explaining how inflation works

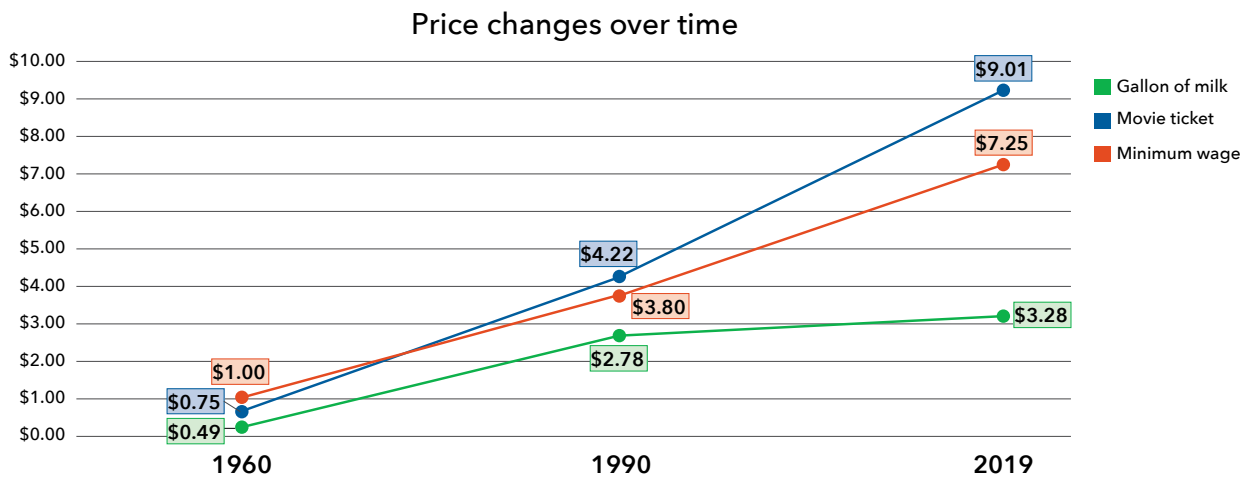
Inflation is what happens when prices increase over time. But inflation isn't an increase in the cost of a few things. It's an increase in the price of all goods and services in the economy. Inflation affects buying power, the amount of goods and services that can be purchased by a given unit of currency.

## Instructions

- 1 Use the line graph to answer questions 1-3.
- 2 Get the current price of a gallon of milk in your area from your teacher. Use that information, the Consumer Price Index (CPI) Inflation Calculator, and the U.S. Department of Labor's minimum wage webpage to answer the questions in the "Changes in buying power" section.
- 3 Answer the reflection question.

## Changes in individual prices

Comparing costs and prices of individual things over time can show how inflation affects buying power at different points in time. This graph shows the average price of a gallon of milk and a movie ticket in three different years. It also shows the federal minimum wage in each year.



- Imagine you worked for one hour at the federal minimum wage. Answer the following questions about the buying power of the money you made (before taxes).

Question	1960	1990	2019
How much did you make in one hour?			
Did you earn enough to go to the movies?			
How many gallons of milk could you buy?			

- Was the increase in the minimum wage higher or lower than the increase in the price of milk? \_\_\_\_\_
- Was the increase in the minimum wage higher or lower than the increase in the price of a movie ticket? \_\_\_\_\_

## Changes in buying power

The CPI Inflation Calculator ([https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)) is a tool used to measure inflation. Measuring inflation gives us information about the buying power of a dollar. The Inflation Calculator compares buying power in two different points in time. Use the Inflation Calculator to compare buying power in January 1960 to January of the current year.

- The federal minimum wage was \$1.00 in January 1960. How much buying power does \$1.00 in 1960 have in January of this year? \_\_\_\_\_
  - Is that higher or lower than the federal minimum wage today? \_\_\_\_\_ (You can find this at the U.S. Department of Labor’s minimum wage webpage at <https://www.dol.gov/general/topic/wages/minimumwage>.) Why do you think that is?
  - How do you think that relates to people’s quality of life now as compared to 1960? Why do you think that?

5. A gallon of milk cost \$0.49 in January 1960. How much was that equal to in January of the current year? \_\_\_\_\_

- Is that more or less than what a gallon of milk in your area costs now?  
\_\_\_\_\_
- Does that mean it's harder or easier for a person to buy a gallon of milk now than it was in 1960? Why?

## Reflection question

Because of inflation, the money you save today might buy less in the future. Why is it a good idea to save more money now?

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