**RWS#4: Price Levels (Inflation and Deflation)**

**Due for: Monday 3rd December 2018**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **COMPULSORY (YOU MUST USE)**   * Notes you have taken in class and from your PREP homework * Powerpoint * Class Textbook – pp 208-212 (ignore the diagrams of AD and AS for the moment); 215-217 (consequences) * Article – Inflation in the 1970’s * Article – Measuring Inflation * Article – UK inflation causes Oct 2016 * WORKSHEET – Index Numbers   **EXTENSION (IF YOU HAVE TIME, TRY TO READ 1 or 2 OF THESE – I am not sure you will be able to read all of them!!!)**   * Class Textbook pp 213-214 (monetarist explanation and psychology explanation of inflation) * ARTICLE – CPI Measuring   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS4 – Price Levels (Inflation and Deflation)**  **Defining and Measuring Price Levels (1/2 side of A4)**   * What is money? Write a little bit about the concept of money and it’s history (only very briefly). What is the difference between commodity, representative and fiat money for example? * Define inflation and deflation (remember it is the AVERAGE general price level in the economy not individual price increases or decreases) * Define ‘hyperinflation’ and a ‘deflationary spiral’ (extreme versions of inflation and deflation) * Why is it so important for Government’s to keep price levels stable?   **Measuring Price Levels (1/2 side of A4)**   * Explain the difference between the CPI and RPI (use the articles if we did not have time to cover this in class) * Why does the ‘basket of goods’ change over time? Give examples of how it is done. * Explain what an index number is and how you can use it to calculate inflation   **Consequences of Inflation and Deflation (1/2 side of A4)**   * Using examples (Germany, Zimbabwe, Hungary, UK in 1970’s), explain why inflation and a possible subsequent hyperinflation can be so devastating to individuals (remember savers and debtors as well as consumers), firms and Government’s. * Using examples (Japan, possibly Eurozone in 2010-11 and UK in 2009), explain why deflation and a possible subsequent ‘deflationary spiral’ can be so devastating to individuals, firms and consumers * Why do countries central banks and Governments try to aim for moderate inflation of 1-3% rather than 0% with the price levels in their economy? (HINT: Think about economic growth and output increasing)   **Causes of Inflation** **(1/2 side of A4)**   * What are the two main causes of inflation/deflation (demand and supply causes)? Explain them both. * Using a graph of inflation, explain the following: Why has inflation been persistently low from 1992 until today in the UK compared to previous years (think both supply and demand reasons). * To what extent is the UK at risk of deflation do you think as the “anti globalization” movement begins? Remember to put arguments on both sides before reaching a conclusion. This is from our discussion in class. |