



LESSON TWENTY TWO

Money: How Much Will It Buy?

TEACHERS

Introduction

Prices for goods and services change frequently, impacting our purchasing power. When a gradual increase in overall prices continues, we may be experiencing inflation. Inflation is defined as an increase in the average of prices, called the price level. As with any average, some prices go up while others may even go down. One of the most common measures of inflation is the Consumer Price Index. The CPI examines price changes for a specific set of products generally purchased by families and compares prices on those products to prices from previous years. Inflation rates are frequently reported in the news and serve as a guide for public policy. We all feel the effects of inflation because rising prices reduces our ability to buy what we need. Inflation is an important factor in determining the value of our money and influences what we can purchase.

Purpose

This lesson will show students how price changes impact purchasing power. Students will compare prices, finding the percentage increase or decrease.

Definition of the Week

Inflation: An increase in the average of prices for goods and services; an increase in the price level.

Tool Kit

Newspaper grocery ads

Procedure

- 1. Have the class determine what foods would be included in their favorite meal. Encourage them to prepare a balanced meal with fruits, vegetables, meat, grains and dessert. Help them make a shopping list of the groceries they need to purchase for their meal. Tell students to search the grocery ads in the newspaper to find the prices of those products. Because prices will vary from store to store, have them compute the average price of each product.
2. Let students pretend to purchase the goods needed to prepare their favorite meal, using the average prices they computed as the actual cost of each good. Have students add the amounts together to determine the cost of their meal. Visit the CPI calculator at http://woodrow.mpls.frb.fed.us/research/data/us/calc/ and insert the years students were born to see how the price of their favorite meal has increased since then.
3. Click on the link to the CPI and Inflation Rates 1913 to today. Print off a copy of the CPI since 1913 and have students plot the annual percent changes (each year's inflation rate) on a graph. Discuss the trends and possible reasons that prices increased or decreased in those years.

PARENT OPTION

- Visit the library with your child and use the Internet to search different websites about money and inflation. Some of these include http://www.moneyfactory.com; http://www.ustreas.gov/kids/; http://federalreserveeducation.org; or http://www.pbs.org.
Help your child make a CPI for your family by listing the goods and services you buy on a regular basis. List the prices you pay each time you make a purchase to see if prices are increasing. Have your child compute the percentage increase or decrease for each good or service. The activity in this lesson will help both of you track the changes in prices. Compare your family's price changes to the CPI reported by the federal government.

Be a Price Detective

1. Select a specific brand and size of three different products for which you can easily find prices either in the newspaper or at a nearby store.

Product 1 _____

Size _____

Product 2 _____

Size _____

Product 3 _____

Size _____

2. Go back to the same store or find an ad in the newspaper every week for the next eight weeks to find prices for the products you selected. Record your prices and plot them on the three graphs on this page.

3. At the end of the eight weeks, answer the following questions:

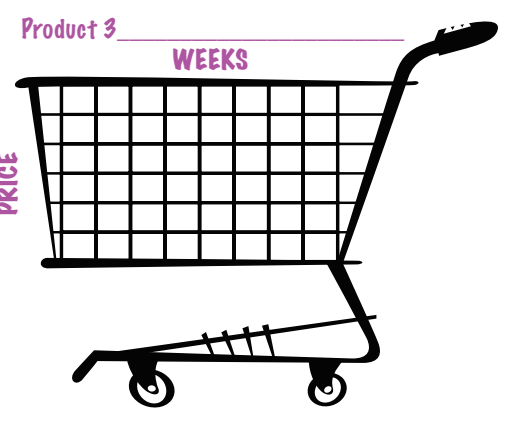
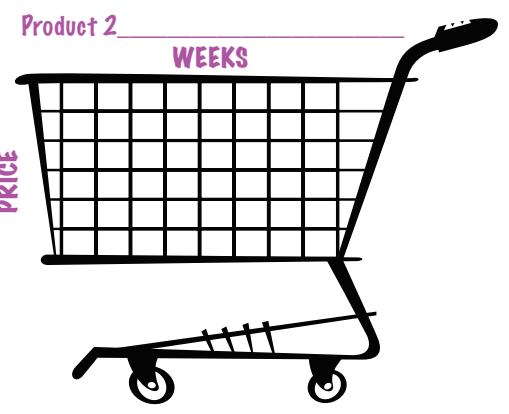
What does the graph show about the prices for each of these three products? _____

What events might have caused the prices to change? _____

How would you and your family be affected by these changes? _____

Are there any products you would buy even if the price increased? List one and explain why you would pay more for it. _____

Are there any products you would not buy if the price increased? List one and explain why. _____



Coming next week: Cellular Phone Service

Newspapers for this educational program provided by: