A-LEVEL ECONOMICS • EXERCISE SHEET

4.6 Price stability

Name: ____________ Class: ________ Date: __________ **Total: 26 marks**

KEY WORDS inflation 通货膨胀 • cost-push 成本推动 • demand-pull 需求拉动 • deflation 通货紧缩 • disinflation 反通胀

Objective

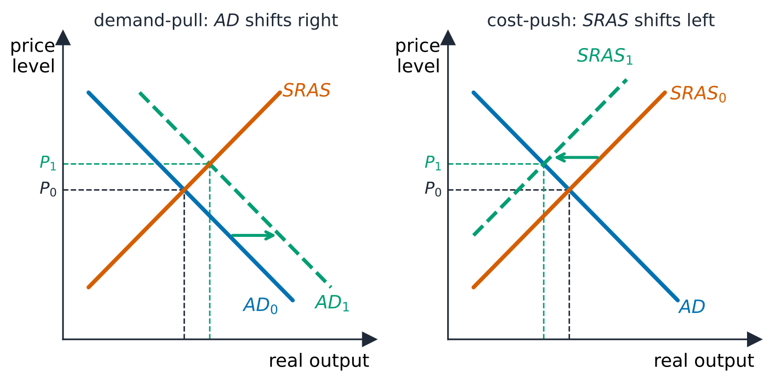
Build the skills to answer exam questions on **price stability 价格稳定** — **inflation, deflation and disinflation 通胀、通缩与反通胀**, the **consumer price index 消费者价格指数** (CPI), the **causes** (demand-pull and cost-push), and the consequences.

You must be able to:

- define inflation, deflation and disinflation, and explain the CPI
- distinguish **demand-pull** 需求拉动 from **cost-push** 成本推动 inflation
- analyse the consequences of inflation and deflation

1 Worked examples

■ Causes of inflation

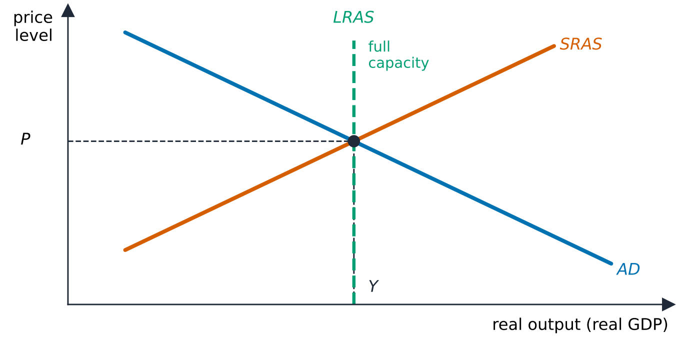


demand-pull: *AD* shifts right · cost-push: *SRAS* shifts left (higher *P*, lower *Y*)

Both raise the price level, but for different reasons

- **Inflation** 通货膨胀: a sustained rise in the general price level (money's **purchasing power** 购买力 falls).

- **Deflation** 通货紧缩: prices fall; **disinflation** 反通胀: inflation is positive but slowing.
- **CPI** 消费者价格指数: tracks a weighted basket of goods.
- **Demand-pull:** AD rises faster than AS. **Cost-push:** rising costs shift SRAS left.



short-run equilibrium: *AD* = *SRAS* · long-run capacity: vertical *LRAS*

On AD–AS: demand-pull = AD shifts right; cost-push = SRAS shifts left — both raise the price level

Answer shapes: an **Explain [up to 8]** answer may use an AD–AS diagram (AO3); **Discuss [12]** adds a judgement (AO4).

2 Practice

2.1 Define the term *inflation*. [2]

2.2 State the difference between *demand-pull* and *cost-push* inflation. [2]

2.3 State one group harmed by inflation. [1]

3 Exam-style questions

3.1 A rise in the general price level caused by higher production costs is: [1]

- **A** demand-pull inflation
- **B** cost-push inflation
- **C** disinflation
- **D** deflation

3.2 Using an AD–AS diagram, explain how demand-pull inflation occurs. [8]

3.3 Discuss whether inflation is always harmful to an economy. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a sustained rise in the general price level, which lowers the purchasing power of money (2 for a clear definition; 1 for a partial idea).

2.2 demand-pull inflation comes from aggregate demand rising faster than supply; cost-push inflation comes from rising costs shifting SRAS left (2 for a clear difference; 1 for a partial idea).

2.3 any one of: people on fixed incomes; savers; exporters (whose goods become dearer) (1).

3.1 **B**. Higher production costs cause cost-push inflation.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (AD shifts right along an upward-sloping SRAS, price level rises) + AO2/AO3 up to 3 — when AD rises faster than supply, "too much money chases too few goods" → firms raise prices → the price level rises; near full capacity the rise is mostly in prices.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Harmful:** inflation cuts purchasing power, hurts fixed-income groups and savers, creates uncertainty and makes exports dearer. **But:** low, stable inflation can signal healthy demand and helps borrowers, while deflation can be worse (delayed spending, falling output). Judgement: high or volatile inflation is harmful, but low, stable inflation is generally acceptable — it depends on the rate and whether it is anticipated.