

4.7 Inflation

Name: _____ Class: _____ Date: _____ **Total: 18 marks**

KEY WORDS inflation • deflation • weight • cpi
• cost-push

Objective

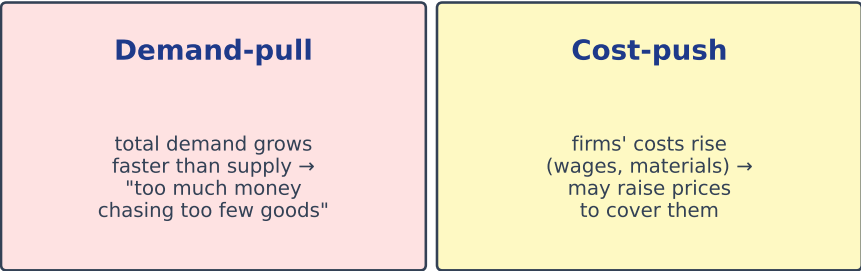
Build the skills to answer exam questions on **inflation** – how it is **measured** (the **CPI**), the **causes** (**demand-pull** and **cost-push**), the effects, and **deflation** .

You must be able to:

- define inflation and explain the CPI
- distinguish demand-pull from cost-push inflation
- analyse the effects of inflation and deflation

1 Key knowledge and worked examples

Causes of inflation



Exam: demand-pull = excess total demand; cost-push = rising costs (wages, oil, imported inputs)

Inflation is a rise in the average level of prices

- **Inflation** : a sustained rise in the average price level. **Deflation** : prices fall.
- **CPI** : tracks a weighted “basket” of goods a typical family buys.
- **Demand-pull** : demand grows faster than supply. **Cost-push**

- : firms’ costs rise.
- **Effects:** money loses **purchasing power** , savings worth less, exports dearer.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

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 effect of inflation on people who have savings. [1]

3 Exam-style questions

3.1 A rise in prices caused by higher wage and material costs is: [1]

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

3.2 Explain how inflation is measured using the Consumer Prices Index (CPI). [4]

3.3 Discuss whether inflation is always bad for an economy. [8]
