IGCSE ECONOMICS • EXERCISE SHEET

4.7 Inflation

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

Objective

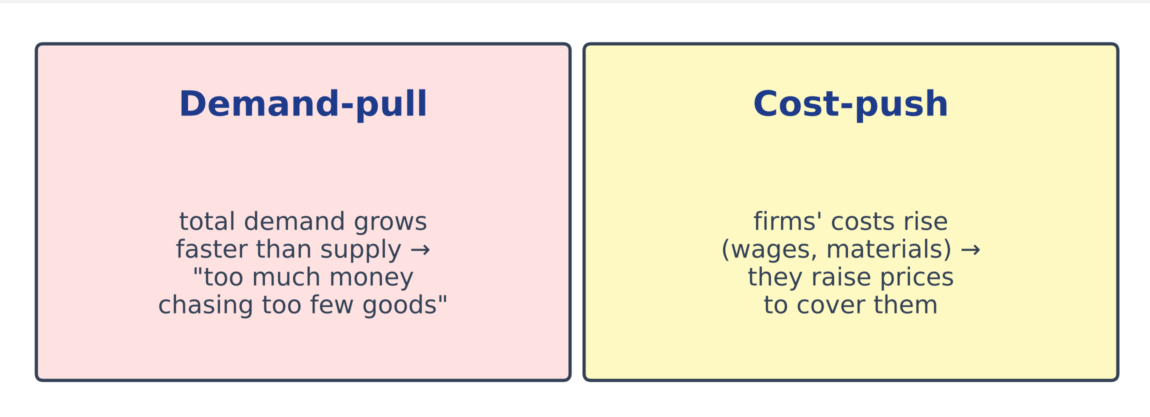
Build the skills to answer exam questions on **inflation** 通货膨胀—how it is **measured** 衡量 (the **CPI** 消费者价格指数), the **causes** (**demand-pull and cost-push** 需求拉动与成本推动), the effects, and **deflation** 通货紧缩.

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 Worked examples

■ Causes of inflation



Inflation is a rise in the average level of prices

- **Inflation** 通货膨胀: a sustained rise in the average price level. **Deflation** 通货紧缩: prices fall.
- **CPI** 消费者价格指数: tracks a weighted "basket" of goods a typical family buys.
- **Demand-pull** 需求拉动: demand grows faster than supply. **Cost-push** 成本推动: firms' costs rise.
- **Effects:** money loses **purchasing power** 购买力, 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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **4.7 Inflation** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q25 (inflation)
- 0455/12 N25 —Q20 (causes of inflation)
- 0455/12 N25 —Q24 (CPI / effects)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 a sustained rise in the average level of prices over time (2 for a clear definition; 1 for a partial idea).

2.2 demand-pull inflation comes from total demand growing faster than supply; cost-push inflation comes from rising costs (wages, materials) that firms pass on (2 for a clear difference; 1 for a partial idea).

2.3 the real value of their savings falls (their money buys less) (1).

3.1 B. Higher wage and material costs cause cost-push inflation.

3.2 *[4]* K 1 + An up to 3 —a "basket" of goods a typical family buys is chosen → each good is given a weight for how much people spend on it → the cost of the whole basket is tracked from year to year → the percentage change in the basket's cost is the inflation rate.

3.3 *[8]* K/App/An up to 5 + Ev up to 3. **Bad:** inflation cuts purchasing power, reduces the value of savings, makes exports dearer, and creates uncertainty. **Not always:** low, steady inflation can show healthy demand and helps borrowers, while *deflation* can be worse (people delay buying, so demand and output fall). **Judgement (Ev):** high or rising inflation is harmful, but low, stable inflation is acceptable and better than deflation —so it depends on the rate.