

Chapter 28

Put into practice questions

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Which of the following statements are true and which are false? Explain your answer.

- Inflation of 2 per cent means that the prices of all goods are increasing by 2 per cent. FALSE; the weighted index has increased by 2% not all prices
- Inflation increases the standard of living. FALSE; it increases the cost of living
- Inflation increases the cost of living. TRUE
- If inflation falls from 3 per cent to 2 per cent, prices are falling. FALSE; prices are increasing at a slower rate
- If inflation is negative, prices are falling. TRUE

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Calculate the weighted price index for the data below

Weight	Price	Index
30	120	3600
40	110	4400
10	110	1100
20	110	2200
100		11300

Weighted index = $11300/100 = 113$
Inflation is 13%

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Which one (s) of the following might cause demand-pull inflation?

- An increase in export demand TRUE
- An increase in import spending FALSE
- An increase in savings FALSE
- A decrease in taxation rates. TRUE

Which factor might cause cost-push inflation?

- Higher levels of exports False; this increases demand
- Greater trade union power True; can push up wages
- More labour productivity; False; will reduce costs
- Lower interest rates. False; will increase demand

End of chapter put into practice questions

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Show how an increase in aggregate demand can cause inflation.

See figure 28.1

Show how an increase in costs can cause inflation.

See figure 28.2

Explain how an increase in the money supply can cause inflation.

See figure 27.6

Explain the impact of an increase in the money supply on short-term and long-term unemployment.

An increase in the money supply increases aggregate demand can reduce certain types of unemployment

Using diagrams show the effect of higher levels of unanticipated inflation on investment and aggregate demand.

May deter investment. This reduces aggregate demand and shifts aggregate demand inwards.

Which of the following is an example of expansionist monetary policy? An increase in:

Answer is A: the money supply

The table below shows the Consumer Price Index for a country over a number of years.

Which of the following statements is true?

	% change	
2012	97	
2013	100	3%
2014	110	10%
2015	120	9%
2016	124	3%

Which of the following statements is true?

Answer is C: the average price level increased each year

Which of the following combinations is correct for the UK?

- Inflation target set by government
- Interest rates set by MPC

Which of the following is most likely to cause demand-pull inflation?

Answer is A: lower interest rates