

ECON: Inflation, Spending, and Wages

Since it would be quite hard to live our daily lives without buying anything, inflation is something we all have to deal with. In this activity you will discuss what inflation is, compare today's purchasing power of the U.S. dollar to previous decades, and learn how inflation relates to the wages your job pays you.

Part I: How Inflation Works

Watch [this video](#) to learn more about inflation. Then, answer the questions.

1. In your own words, briefly describe how inflation works.

2. Gerald just received a 2% raise from his employer. However, the rate of inflation last year was 3%. Explain why this is a problem for Gerald.

Part II: How Much Would \$1 Be Worth Today?

3. Because of inflation, something that cost \$1 in the past would cost more if we bought it today. Use this [inflation calculator](#) to find out how much a \$1.00 purchase in previous decades would cost you today.

(Enter "1" in the dollar field and change the year for each decade as pictured to the right. Leave all other fields as they are. Then input the results in the table below.)

CPI Inflation Calculator

\$

in January 1950

has the same buying power as

in July 2021

One Dollar Purchase: Then and Now								
A \$1.00 purchase in...	1950	1960	1970	1980	1990	2000	2010	Today
Would cost this much today	\$11.62							

4. List something that you can buy for about \$20.00 today. How does it make you feel that this item would have cost a small percentage of that if it was purchased around 1950-1960?

5. The item you listed would have cost \$2.00 back then? What a deal! Does this mean that item would have been super cheap and affordable for most people in 1950? Why or why not?

Part III: Nominal vs. Real Wages

Since inflation is continuously happening, that means a person's income has to increase to avoid losing purchasing power every year. Review the article [Nominal Wage vs. Real Wage](#) to learn more about their importance. Then, answer the questions.

6. In your own words, explain the difference between nominal wage and real wage.

7. Vicky has worked for the same company since January 2011. Her starting salary was \$52,000 and she has received a \$1,000 raise on the first day of each year.

- a. How much is her salary today?

- b. If her salary had increased at the same rate as inflation, how much would she be making today? (Tip: Use the [inflation calculator](#))

- c. When comparing the rate of her salary increase to the rate of inflation, how would this have an impact on Vicky's budget?

- d. Vicky has decided she either needs to find a second job so she can meet her current spending and saving goals or she needs to have a discussion with her employer about her salary. What would you recommend to Vicky as her best course of action and why?