

# What is Inflation?

## Worksheet

The inflation rate is calculated as the percentage change in the Consumer Price Index (CPI) between two periods:  $\text{Inflation Rate} = ((\text{CPI}_{\text{new}} - \text{CPI}_{\text{old}}) / \text{CPI}_{\text{old}}) \times 100$ .

## Questions

1. CPI rises from 200 to 210. What is the inflation rate?

- A) 5%
- B) 10%
- C) 2%
- D) 0.5%

2. What index is most commonly used to measure inflation?

- A) GDP
- B) CPI
- C) Unemployment rate
- D) Interest rate

3. What does inflation do to purchasing power?

- A) Increases it
- B) Decreases it
- C) Has no effect
- D) Doubles it

4. A sustained fall in the general price level is called:

- A) Inflation
- B) Stagflation
- C) Deflation
- D) Recession

5. CPI was 220 last year and is 231 this year. Find the inflation rate.

6. A basket of goods cost \$500 last year and costs \$515 this year. Find the inflation rate.

7. If prices rise from an index of 150 to 156, what is the inflation rate?

8. Define: What is inflation?

9. Define: What is the inflation rate formula?

10. Define: What is CPI?

## Answer Key

1. A)  $5\% - ((210-200)/200) 100 = 5\%$ .
2. B) CPI - The Consumer Price Index (CPI) tracks the price of a representative basket of goods and services.
3. B) Decreases it - As prices rise, the same amount of money buys fewer goods and services.
4. C) Deflation - Deflation is a sustained decrease in the general price level, the opposite of inflation.
5. Inflation =  $((231-220)/220) 100 = (11/220) 100 = 5\%$
6. Inflation =  $((515-500)/500) 100 = (15/500) 100 = 3\%$
7. Inflation =  $((156-150)/150) 100 = (6/150) 100 = 4\%$
8. A general, sustained rise in the price level of goods and services over time, reducing purchasing power.
9. Inflation Rate =  $((CPI\_new - CPI\_old) / CPI\_old) 100$ .
10. Consumer Price Index - a weighted average of prices for a standard basket of goods and services.

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