inflation

inflation

Anyone who has ever wondered why today's prices are so much higher than those of 100, 50, and even 25 years ago have actually considered the effects of inflation, or the decrease in value relative to overall quantity and production. To explain this definition, let's consider why today's prices are higher than those of the past. As the world population has grown, central banks, or the institutions tasked with managing countries' economies, have responded to this growth by minting, or officially creating and releasing, more money. Their reasoning for this course of action is that not having enough money in circulation could lead to panics, or economic downturns that're usually accompanied by anxiety over currency.

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So, to reduce the chances of a panic and assure that today's citizens have access to physical money, central banks release more dollar bills and coins regularly, based upon a pre-planned schedule. As additional currency has come into circulation, its value has decreased; this is the process of inflation. To better understand the idea of inflation, consider the following example: if children that enjoy trading marbles implement a value system where red marbles are fairly common, grey marbles are rarer, and green marbles are the rarest, because there are more and of the first type, fewer of the second type, and fewer of the third type, the system will be stable until more marbles enter into circulation. Thus, by tripling the number of marbles in circulation, they will all become significantly less valuable.

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What this means for consumers is that the money that they earn is worth less over time, and essentially, even though their wages might increase in amount, they will have a lesser purchasing power, or a measure of how many goods and/or services it can be exchanged for. Lastly, deflation is the process of a currency becoming more valuable due to a tight production schedule. If there was less currency around today, each dollar would be worth more—just as was the case many years ago, when some products could be purchased for pennies

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1) **What effect does inflation have on currency?**

   a) It increases its value

   b) It decreases its value

   c) It doesn't affect its value

   d) Economists are still trying to figure this out

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2) What are central banks, and what process allows them to increase the flow of currency?

a) Central banks are the institutions tasked with managing countries' economies, and they mint new money

b) Central banks are local establishments that make loans to residents

c) Central banks are digital money distributors that protect credit card companies

d) None of the above

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3) What is the main difference between panics and recessions?

a) There aren't any differences between the two

b) Recessions are shorter than panics

c) Panics are characterized by affordable prices, while recessions are not

d) Recessions last longer than panics and could be indicative of largescale economic downturns

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4) What is purchasing power?

a) The strength of one's credit score

b) A measure of someone's wealth

c) A typical measure of how many goods/services currency can be exchanged for

d) A and B

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5) What is deflation, and how does it compare to inflation?

a) Deflation and inflation are basically the same
b) Inflation is always good, while deflation is always bad
c) Deflation is the increased value of something due to a modest supply, while inflation is a reduced value of something due to an enhanced supply
d) Researchers are still attempting to find the differences between the two