



# Inflation

## Section 1 What is inflation?

**Inflation is when the prices of goods and services increase over time. Our buying power has faded.**

For example, let's say you want to buy a chocolate bar which costs \$2 today. In a few years, due to inflation, the same chocolate bar might cost \$2.50 or \$3 or it could be a smaller chocolate bar for the same \$2 price.

The reason why inflation can keep increasing is if we think prices will not come down in the short term then we are likely to demand higher wages to pay for those higher prices and this will then push prices up from the businesses to cover the demand in higher wages.

### ACTIVITY

**Interview your Whanau.**

**Ask the following questions to THREE different groups:**

	20-30 year old	40-50 year old	over 65 year old
<b>Q1</b> When did you start full time work?			
<b>Q2</b> What was your starting full time weekly wage?			
<b>Q3</b> How much did it cost to buy a 2l milk when you were younger?			
<b>Q4</b> What year was that?			
<b>Q5</b> How much did it cost for a tank of petrol approximately when you were growing up?			
<b>Q6</b> What year was that?			



**Evaluate the different groups.**  
Why do you think prices have changed over time?



## ACTIVITY

Using the [RBNZ Calculator](#), research the costs of the following in the year 2000, 2010 and now.

	In the year <b>1980</b>	In the year <b>2000</b>	In the year <b>2010</b>	<b>now</b>
The minimum wage	\$3.10			
A snickers chocolate	\$1.40			
The average weekly rent price	\$158			

## Section 2

# Why does inflation occur?

There are many reasons why inflation happens.

One reason is when there is too much money circulating in the economy and demand for goods and services increases. This causes prices to go up. Another reason is when the cost of producing goods and services increases, and businesses pass on these costs to consumers by raising prices. This can happen if there is an increase in demand for goods or services such as the increased need for housing. Inflation can also happen when there is a decrease in supply such as the cyclone damaging our fruit supply.

An increase in the money supply can also cause inflation or a decrease in interest rates which all happened with Covid19.

## ACTIVITY

Using this [infographic](#), prepare an infographic to explain why inflation occurs.

## SECTION 3

# Advantages and disadvantages of inflation

**Inflation can have both positive and negative effects.**

An advantage can be it can encourage people to spend money now instead of saving it because they know that their dollar will buy less over time. However, this can help boost economic growth as a whole.

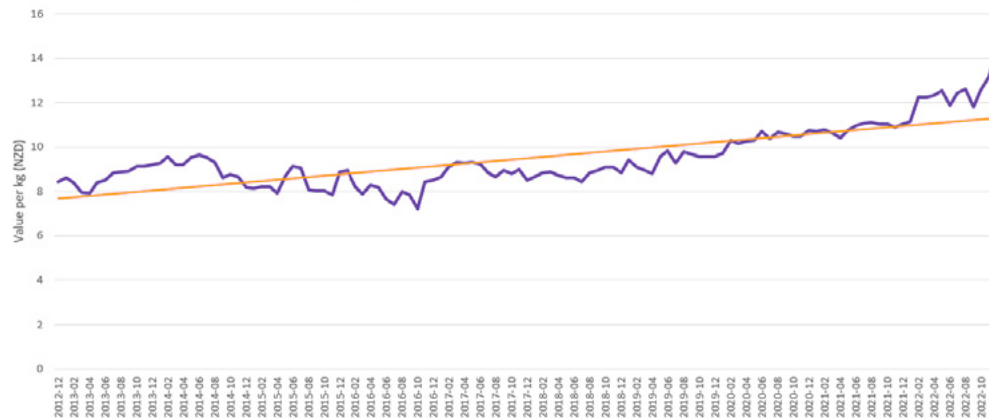
The disadvantages of high levels of inflation can be unstable, as people struggle to afford basic things and do not spend their money and therefore as businesses struggle to stay afloat they put their prices up causing people to spend everything they earn on the basics.

Overall, it's important to be aware of inflation and how it can affect your purchasing power over time.

### ACTIVITY

#### Interpreting data

Retail price of mild cheddar cheese in New Zealand (Figure.NZ)



**Q1** What was the price in December 2012?

**Q2** What is the price in December 2022?

**Q3** What do you notice about inflation over the last 20 years?


**Q4** What patterns can you see?

**Q5** What conclusions can you draw from this graph?

**Q7** What do you predict the price to be in 2043?

Te whai hua - kia ora!

**sorted**  
in Schools

**Scenario discussion questions** 

**1kg cheddar cheese has increased in price from \$8.45 in 2012 to \$14.44 in 2022**

Calculate the percentage increase over the 10 years.

If an average family eats 1kg a fortnight, What does this price increase mean for an average family?

How might a family / household deal with this price increase?

What impact would this have on businesses? i.e. cafes, farmers, economy?

## SECTION 4

# How to manage inflation

Managing inflation can be tricky but there are some ways to try and help a household:

- Use a budget and plan for savings by paying yourself first - read this Sorted blog post "[Pay yourself first](#)" - [WTFinance does that even mean?](#) to understand about what 'paying yourself first' means.
- Upskill your career
- Earn extra income
- Investments

### ACTIVITY



Watch the following [video](#) on compound interest and KiwiSaver and answer the questions that follow;



**Q1** What is the KiwiSaver Aggressive Fund?

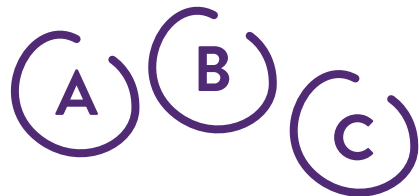
**Q2** At what age does Ana start investing in her KiwiSaver?

**Q3** Calculate the percentage gain on investment Ana gets after 24 years, \$523 for her \$480 investment.

**Q4** Ana gets \$3,146 in compound interest after 48 years but Paul only gets \$523, calculate the lost interest for Paul.

**Q5** Compare and contrast using a Venn Diagram for compound interest and inflation.

### ACTIVITY



#### Glossary creation

Using the [www.sorted.org.nz](http://www.sorted.org.nz) website, are there any words which you need to investigate the meaning of?