

ECO 2013 – PRINCIPLES OF MACROECONOMICS  
CHAPTER LEARNING OBJECTIVES

CHAPTER 7  
INFLATION

*The Macro Economy Today*, 11<sup>th</sup> edition by Bradley R. Schiller

As you read through Chapter 7 of the assigned textbook, use these objectives as a guide for note taking. Yes, I really expect you to read this chapter! Yes, I really expect you to take notes on what you are reading about within this chapter! That's how you LEARN new subject material! Provide an "answer" to each of the learning objectives listed below, and then cross-reference this list with the in-class lecture notes that you've taken on this chapter. Of course there will be some overlap in the coverage of topics! If it's important for you to know after reading this chapter, then it's on the list below. Remember, I use the lecture period to highlight super-important concepts and to relate them to current events. You HAVE TO read along in the textbook if you want to acquire all of the information you will need for testing purposes!

**After a careful reading of Chapter 7, the student is expected to be able to:**

- (1) Define the term *inflation*.
- (2) Define the term *deflation*.
- (3) Define the term *relative price* and explain what information is conveyed through changes in relative prices.
- (4) Discuss the price effects of inflation.
- (5) Define the term *nominal income*.
- (6) Define the term *real income*.
- (7) Discuss the income effects of inflation.
- (8) Discuss the wealth effects of inflation.
- (9) Explain how inflation "acts like a tax".
- (10) Discuss how periods of high inflation can create social and political tension for nations.
- (11) Define the term *money illusion*.
- (12) Discuss how inflation creates uncertainty that can harm the macro economy.

- (13) Explain how “excessive” speculation during a period of high inflation can have negative effects on the macro economy.
- (14) Define the term *hyperinflation*.
- (15) Define the term *bracket creep* and explain how it could be harmful to the macro economy.
- (16) Explain how deflation is JUST AS HARMFUL to the economy as inflation.
- (17) Define the term *Consumer Price Index (CPI)*.
- (18) Define the term *inflation rate*.
- (19) Define the term *base period*.
- (20) Define the term *item weight*.
- (21) Explain in broad terms how we measure inflation using the Consumer Price Index.
- (22) Define the term *core inflation rate*.
- (23) Discuss what information is conveyed through Producer Price Indexes.
- (24) Explain the concept of Price Stability.
- (25) Discuss the relationship between inflation and unemployment.
- (26) Explain how changes in product quality can impact the accuracy of our measures of inflation.
- (27) Explain how the introduction of new products can impact the accuracy of our measures of inflation.
- (28) Explain the nature of demand-pull inflation.
- (29) Explain the nature of cost-push inflation.
- (30) Explain how a COLA can protect workers against the negative effects of inflation.
- (31) Explain how an ARM can protect lenders against the negative effects of inflation.
- (32) Distinguish between the nominal interest rate and the real interest rate.

NOTE: Keep in mind that the lecture outline for Chapter 7 will provide more up-to-date statistical data, relative to what is printed in your textbook. For testing purposes, you will be responsible for knowing the most up-to-date statistical data.