

Concept – Inflation

Inflation is _____

Purchasing power is _____

Inflation is always occurring, however governments and banks work together to make sure it is not too high. Some mistakes have been made and this can lead to hyperinflation.

In Zimbabwe inflation got to the point where prices of goods were doubling every day!

How To – Calculate inflation over short periods

Over one year finding inflation can be a matter of simply calculating the percentage of an amount and adding it to the original.

$$\text{new cost} = \text{old cost} + \text{old cost} \times \frac{r}{100}$$

Eg: The current inflation rate in Australia is 2.1%. Using this rate what will the price of an avocado, which costs \$2.00 this year, be in 3 years?

How To – Calculate inflation over longer periods

This can be a very long process for longer periods of time. It can be easier to use the equation below (the same one we have used previously for compound interest) when the timescale gets bigger.

$$A = P \times \left(1 + \frac{r}{100}\right)^t$$

Eg: The current inflation rate in Australia is 2.1%. Using this rate what will the price of an avocado, which costs \$2.00 this year, be in 10 years?

How To – Calculate purchasing power

When calculating future purchasing power remember to substitute the value you currently have for _____ in the same equation as above.

Eg: If you have \$85 and you hide it under your bed today, what will be the purchasing power of this money be in 15 years?

Worked Example

After completing the exercise choose an example of either calculating purchasing power, or inflation whichever you found the most challenging.