

Activity 1

ESTIMATING INFLATION

PART 1: PRICE PROJECTIONS

Last year you purchased a pair of jeans for \$75.00 at your favorite store. This year that same pair of jeans is priced at \$89.00.

1. What is the inflation rate for these jeans?

This year's price	- Last year's price	= Price increase	÷ Last year's price	= Inflation rate
\$	\$	\$	\$	%

2. If that inflation rate remains consistent, how much will the jeans cost in the future? Use a calculator to fill in the chart.

JEANS PRICE SERIES – CONSISTENT INFLATION RATE					
Last year	This year	Future year 1	Future year 2	Future year 3	Future year 4
\$75.00	\$89.00	\$	\$	\$	\$

3. Which years reflect actual prices? _____ Hypothetical prices? _____

4. Inflation rates are rarely consistent from year to year. Estimate the prices if the inflation rate is 5% higher in future year 2 than it was this year, then another 3.5% higher in future year 3, and then falls by 2% in future year 4.

JEANS PRICE SERIES – CHANGING INFLATION RATE					
Last year	This year	Future year 1	Future year 2 (inflation +5%)	Future year 3 (inflation +3.5%)	Future year 4 (inflation -2%)
\$75.00	\$89.00	\$	\$	\$	\$

