Inflation Auction and Reflection Essay

This lesson includes an auction simulation with a gradual increase in the money supply to see the effect on auction prices. It is adapted from a Federal Reserve of Kansas City lesson plan that can be found here: https://www.kansascityfed.org/publicat/education/teachingresources/lessonplangr9-12.pdf

Objective:

I can identify the effects of inflation on a society.

Big Ideas:

1. Inflation is a general increase in prices, while the purchasing power of money decreases.

2. Inflation can have a negative impact on society when prices of goods and services rise faster than wages.

Essential Questions:

1. What is inflation?

2. How does inflation affect society?

Anticipatory Set: Have you ever participated in an auction? Or an online auction? What was it like? Describe it. Stand and Share.

(Answers may vary: an auction is a way to sell goods or services. Auction items are shown to participants, who then offer money, or bid, for the item if interested. The bidding continues to increase until no participant offers more money for the item. It is then sold to the highest bidder.)

Procedures:

1. Students will take notes from a PPT / KN.

Notes

Inflation is an increase in the average price level of goods and services over a period of time.

Inflation results when there is too much money and credit in the economy in relation to the goods and services available.

When people have more money to spend and the amount of goods and services doesn't increase as quickly, business owners find they can raise their prices and sell as much as they did before.

Inflation can be detrimental because it reduces the value of people's savings when price increases are larger than the interest rates that people receive on their savings accounts.

Because the savings value is reduced, it gives people the incentive to spend rather than save. By discouraging savings, inflation can harm the U.S. economy.

The economy needs a supply of savings to provide the funds for people and businesses to borrow so that they can help the economy grow.

Extension Notes: Inflation can have other undesirable effects. Increases in prices can hurt people whose incomes rise less than the inflationary rate, or not at all.

Retired workers with fixed pensions have less discretionary income.

Business owners have a harder time planning for future production because of the uncertainty of price increases.

Inflation can feed on itself.

When workers see the prices they pay going up, they'll push for higher salaries. If their employers raise their salaries, the employers will have to increase prices for their products to cover the increased expense.

This spiraling effect creates economic and social instability

2. TW hand out auction one dollar bills in random amounts to students. (Everyone receives at least one dollar.) These dollars represent the classroom money supply and can only be used for the auction.

3. Using the document camera and Smart Board, record the total number of dollars handed out under the "class money supply" total for round one on the chart.

4. Start round one of the auction, selling the first candy bar to the highest bidder, by using the process described above. Collect the money from the highest bidder, and record the sale price of the candy on the chart in the column labeled "winning bid" for round one. Give out candy.

5. Expand the classroom money supply by handing out auction five dollar bills in random amounts to students, making sure all receive at least one bill.

6. Using the document camera and Smart Board, record the total number of dollars handed out for round two, plus the total from round one, minus the amount paid by the first winner. This is the new total for the class money supply. Start round two of the auction, selling the second candy bar to the highest bidder. Collect the money from the winner, and record the sale price of the candy in the column labeled "winning bid" for round two. Give out the candy.

7. Add to the money supply again by handing out auction ten dollar bills in random amounts to students, making sure all receive at least one bill.

8. Using the document camera, record the total number of dollars handed out for round three, plus the previous totals for rounds one and two, minus the amount paid by both winners. This is the updated total for the class money supply. Start round three of the auction, selling the candy bar to the highest bidder. Collect the money from the winner, and record the sale price of the candy in the column labeled "winning bid" for round three.

9. Discuss the auction results, using the record, with the following questions:

a. What was the total class money supply for round one? Round two? Round three? (Answers will vary.)

b. Why did the money supply increase each round? (The teacher added new bills to the money supply each round, and only one person spent their money on candy each time.)

c. How much did the winning bidder pay for the candy in round one? Round two? Round three? (Answers will vary).

d. Why did the sale price for the candy increase in each round? (The students had more money to bid with each time, and they were willing to bid higher amounts in order to win the candy.)

10. Tell students that they have just experienced the effects of inflation with the increased prices of the candy. Explain that there was an expanding money supply, but there was still the same amount of goods. The amount of money alone had no impact on the amount of goods available, only on the price of the goods. Define inflation as an increase in the average price level of goods and services in the economy over a period of time. Inflation occurs when an increase in the money supply greatly exceeds an increase in the number of goods and services available.

Closure: On an exit slip, in CQS, answer the following question: How would you define inflation? Why is it bad for society? (Inflation is an increase in the average price level of goods and services in our economy over a period of time. It is bad because it increases economic instability and uncertainty in consumers and business owners.)

Materials: 12 of the largest chocolate bars I can buy; class money supply (same as the one I used in the Banking Simulation); PPT / KN.

Homework: Finish GAL week 3 components.

Instructional Techniques: Guided Practice, Independent practice, active participation, cooperative learning.

Assessment: Informal observation during the auction, Reflection Simulation Essay