

Price Stability Infographic Activity (Answer Key)

How does the Fed measure price level changes? Explore the Federal Reserve Bank of Atlanta’s new Price Stability infographic to learn what price stability means, how inflation is measured, how it affects purchasing power, and who gains and loses when there is unanticipated inflation. Answer the following questions to evaluate information found on the infographic.

1. Open the [Price Stability infographic](#) and answer the following questions:
 - a. What is price stability? *When the rate of inflation is kept low and stable over an extended period of time.*
 - b. How is the price level defined? *The price level is the average of the current prices of everything sold in our economy.*
 - c. When there is inflation, what happens to purchasing power? *When there is inflation, it takes more money to buy the same amount of goods and services.*
 - d. Why do borrowers gain when there is unanticipated inflation? Why do lenders lose? *Borrowers gain because they pay back their loans with money that has less purchasing power; lender who sell loans at fixed rates lose because they are paid back with money that has less purchasing power.*

2. Scroll to the “Inflation Indices” section of the infographic and fill in the chart below:

| Price index | Who calculates it? | Measures changes in prices: | Survey or GDP? | FOMC’s inflation measure? (Yes/No) |
|---|---|---|----------------|------------------------------------|
| Consumer price index (CPI) | <i>U.S. Bureau of Labor Statistics</i> | <i>Paid by urban consumers for a market basket of consumer goods and services</i> | <i>Survey</i> | <i>No</i> |
| Personal consumption index (PCE) | <i>U.S. Bureau of Economic Analysis</i> | <i>For the personal consumption component of gross domestic product</i> | <i>GDP</i> | <i>Yes</i> |

3. Answer the following questions from the “Core vs. Headline Inflation Rates” section of the infographic:
 - a. What does the core inflation rate exclude? *Food and energy*
 - b. Why are these components excluded? *To provide a better picture of underlying short-term inflation trends*
 - c. What does the headline rate more accurately reflect? *People’s actual expenses*

4. Use the formula on the “Calculating the Inflation Rate” section of the infographic to calculate inflation in the following examples:
 - a. Price index this period, 200; price index previous period, 185 *8.1%*
 - b. Price index this period, 240; price index previous period, 230 *4.3%*
 - c. Price index this period, 212; price index previous period, 206 *2.9%*

5. Navigate to the Bureau of Labor Statistics’ CPI website (www.bls.gov/cpi) and answer the following questions:
 - a. What is the current inflation rate for the last 12 months as calculated by the CPI?
Answers will vary according to the data used.
 - b. What is the latest monthly increase? Is it more or less than the average of the last 12 months? *Answers will vary according to the data used.*
 - c. Is there a difference between the core and headline rates? If yes, why do you think this is so? (If yes, choosing “Charts” under “CPI News Releases” will give you detailed information on the categories included in core and headline rates.) *Answers will vary according to the data used.*