

THE FEDERAL RESERVE BANK OF ATLANTA

Price Stability

How does the Fed measure price level changes?
MACROECONOMICS

Price Stability Infographic Activity (Updated 2023)

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Price Stability Infographic Activity

How does the Fed measure price level change? Explore the Federal Reserve Bank of Atlanta’s new Price Stability infographic (bit.ly/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.

1. According to the Price Stability infographic:
 - a. What is price stability?
 - b. How is the price level defined?
 - c. When there is inflation, what happens to purchasing power?
 - d. Why do borrowers gain when there is unanticipated inflation? Why do lenders lose?

2. Based on the “Inflation Indices” section of the infographic, fill in the chart below:

Price index	Who calculates it?	Measures changes in prices of:	Survey or GDP?	FOMC’s inflation measure? (Yes/No)
Consumer price index (CPI)				
Personal consumption expenditures (PCE)				

3. Answer the following questions from the “Core vs. Headline Inflation Rates” section of the infographic:
 - a. What does the core inflation rate exclude?
 - b. Why are these components excluded?
 - c. What does the headline rate more accurately reflect?



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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
 - b. Price index this period, 240; price index previous period, 230
 - c. Price index this period, 212; price index previous period, 206

5. Go online 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?
 - b. What is the latest monthly increase? Is it more or less than the average of the last 12 months?
 - 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.)