Price stability occurs when the Rate Of Inflation is kept low and stable over an extended time period.

The Price Level is the average of the Current Prices of Everything Sold in our Economy.

Understanding Price Stability


Personal Consumption Expenditures Index from the U.S. Bureau of Economic Analysis

PCE Captures the changes in the prices for the personal consumption component of gross domestic product.

The Federal Open Market Committee ties its explicit target rate of 2% inflation to the PCE index.

Average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Consumer Price Index from the U.S. Bureau of Labor Statistics

CPI

Core vs. Headline Inflation Rates

Including food and energy more accurately represents people's actual expenses.

Excluding these components may provide a better picture of the underlying short-term inflation trends.

Inflation rate example

\[
\text{Inflation rate} = \frac{X_{\text{current}} - X_{\text{previous}}}{X_{\text{previous}}} \times 100
\]

The Federal Reserve’s mission is to conduct the nation’s monetary policy by influencing monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates.

How does the Fed measure price level changes?

MACROECONOMICS

Learn more about this topic and download a copy of this infographic by visiting atlantafed.org/education/teach/infographic-posters

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Who gains and who loses from unanticipated inflation?

Borrowers gain

Borrowers with fixed interest rate loans repay their loans with money that has low purchasing power.

Lenders lose

Lenders who sell loans at fixed rates are repaid with money that has less purchasing power.

Inflation Indices are measures of the prices paid by consumers for goods and services.

PI

Core inflation excludes food and energy. It takes a fixed basket of goods and services.

Headline inflation includes food and energy. It reflects expenditures of urban consumers only.

Derived from household surveys

Uses a fixed basket of goods and services

It takes 88% more money to buy the same basket of goods in Year 2.

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ice Cream</td>
<td>$0.50</td>
</tr>
<tr>
<td>Hot Dog</td>
<td>$1.00</td>
</tr>
<tr>
<td>Salad</td>
<td>$0.75</td>
</tr>
<tr>
<td>Soda Pop</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

Calculating the Inflation Rate

\[
\text{Inflation rate} = \frac{X_{\text{current}} - X_{\text{previous}}}{X_{\text{previous}}} \times 100
\]

\[
\text{Inflation rate example} = \frac{237 - 223}{223} \times 100 = 2.5\%
\]

The PCE price index is 2.5% higher in Year 2.