

CRITICAL THINKING 19

CAUSES AND EFFECTS OF INFLATION

A cause is the action or situation that produces an event. An effect is what happens as a result of an event.

Directions: Each item below is either a cause or an effect of inflation. (One item is both.) Copy each item in the correct column in the following chart.

INFLATION

CAUSES	EFFECTS

1. Prices go up, the dollar buys less, and people on fixed incomes have decreased purchasing power.
2. Interest rates go up and spending on automobiles and houses falls.
3. Consumers, businesses, and governments try to buy more goods and services than the economy can produce.
4. The federal government spends more money than it collects in revenues.
5. The cost of labor goes up forcing manufacturers to raise prices.
6. People speculate heavily to take advantage of rising prices.
7. Loans are repaid in dollars that have less purchasing power because they buy less.
8. Higher prices force workers to ask for higher wages.
9. The Federal Reserve System increases the money supply faster than the increase in the Gross Domestic Product.
10. The cost of a raw material such as oil unexpectedly increases.