

CHAPTER 18 RESOURCE DEVELOPMENT:

INFLATION, CENTRAL BANKS AND MONETARY POLICY

CHAPTER 18



key ideas

What is inflation and what causes it?

Real Prices, Real wages and Real Interest Rate

Central Bank and monetary policy

Scarcity and its impact

LEARNING GOALS:

Have students develop an understanding of:

- The causes of inflation and how that affects the consumer.
- National monetary policy and how it affects the individual consumer.
- How demand is affected by scarcity.

SUCCESS CRITERIA:

I will know I am successful when I can:

- Explain the basic causes of inflation.
- Describe what the Central Bank is and how they control monetary policy.
- Explain, using a real world example, of how scarcity impacts costs.
- analyse how monetary policy affects the individual
- Assess how monetary policy affects jobs and costs

RESOURCES:

- [TED talk on minimum wage \(does not cause inflation and does build middle class\)](#)
- [Garth Lenz on the true cost of oil](#)

MINDS ON:

“Central Banks are the most important single actors on the economic stage. They have the power to closely regulate everything from prices to job creation to incomes.” (page 242)

As you look at this image, (figure 18.1, page 248, graph of Consumer Price Inflation, 1970 to 2013) record what you SEE (facts), what you THINK (infer), and what you WONDER (questions you have)

ACTION:

Have students work in groups to come up with answers to the SEE, THINK and WONDER questions created. They will be able to use the text and web searches to determine the answers so that they can better understand the way inflation works. Make sure they understand how to vet research and remind them that the first answer on Google may not be the best answer to their question. Have them complete a CRAAP test for each on-line source used. CRAAP test

CONSOLIDATION:

- 1) Letter to the governor of the Bank of Canada to propose monetary policy changes
- 2) The letter would be in formal business letter format and follow the attached guideline and rubric.
- 3) Outline: (will need to be dressed up for final presentation)

Formal Business Letter Planner

Name
Address
City, Province, Postal Code

Date

Name of Recipient
Job Title
Company or Organization
Address
City, Province, Postal Code

Dear (*Name of Recipient*)

Introductory paragraph stating purpose, should be short.

Additional information paragraph

Concluding information or a summary of the letter, or a thank you

Sincerely,

Sign your name here

Your name
Your title

Rubric:

Formal Business Letter Rubric				
Category	4	3	2	1
Format	Meets all 16 of the expectations and requirements of the Business letter.	Meets 14 - 15 of the expectations and requirements of the Business letter.	Meets 11 - 13 of the expectations and requirements of the Business letter.	Meets 8 - 10 of the expectations and requirements of the Business letter.
Opening and Closing	Opening and closing have no errors in capitalization and punctuation.	Opening and closing have 1 or 2 errors in capitalization and punctuation.	Opening and closing have 3 or more errors in capitalization and punctuation.	Opening and closing are missing.
Sentence Structure and Paragraphs	Sentences and paragraphs are well constructed and have a variety of structures.	All sentences are complete and well constructed, no run-on sentences or sentence fragments. Paragraphing is well done.	Most sentences are complete and well constructed. Paragraphs need some work.	Many sentences are fragments or run-ons. Or paragraphs need a lot of work.
Grammar and Spelling	There are no errors in grammar or spelling.	There are no errors in grammar or spelling.	There are no errors in grammar or spelling.	There are no errors in grammar or spelling.
Envelope	Complete, accurate return address and recipient address. Address in correct positions.	Complete, accurate return address and recipient address. Position may be off slightly.	1 or 2 errors in return address or recipient address.	Addresses are incomplete and/or inaccurate.

EXPECTATIONS:

BBI2O

- demonstrate an understanding of ethics and social responsibility in business;
- demonstrate an understanding of the benefits and challenges for Canada in the field of international business
- demonstrate an understanding of how international business and economic activities increase the interdependence of nations.
- analyse the ways in which ethical considerations affect international business decisions;

CHC4U

- F1.1 evaluate, on the basis of research, the effectiveness of government initiatives or regulations (e.g., the Great Lakes Action Plan), and the actions of individuals (e.g., use of public transportation), intended to improve air and water quality, and propose a personal action plan to support these efforts.

CHI4U

- E1.4 analyse key causes and consequences of major economic trends and developments in Canada during this period, including those related to regional economic disparities (e.g., the Rand decision, fluctuations in labour unions, continuing development of branch plants and foreign investment, the decline of manufacturing, economic growth in western and northern Canada, free trade agreements, inflation, recessions, fishing moratoria, the bursting of the tech bubble, the empowerment of individual investors)

CHV2O

- B1.1 describe some civic issues of local, national, and/or global significance

CIA4U

- D1.1 demonstrate an understanding of the business cycle model (e.g., recession, depression, peak, recovery, expansion) and various economic indicators (e.g., employment, gross domestic product, inflation)
- D3.1 analyse the role of the Bank of Canada, with a particular emphasis on monetary policy (e.g., with reference to the money supply, interest rates, reserve ratio, exchange rates, its role in responding to economic challenges such as recession or inflation)

CIC4E

- B1.4 explain how some economic and/or social factors (e.g., wage rates/salaries, inflation, tax brackets, cost of living in the local community, exchange rates) can affect the purchasing power of individuals

CIE3M

- B3.3 analyse how governments in Canada prioritize competing economic goals when responding to economic challenges (e.g., unemployment, inflation, recession, increasing public debt)
- D2.2 analyse how governments in Canada respond to economic problems (e.g., with reference to changes in taxes, cuts to or increases in spending/ services, wage/price controls, changes to minimum wages or to pension or unemployment benefits), including the problems caused by economic fluctuations (e.g., recession, recovery, boom)

CPW4U

- B3.1 analyse how various economic factors (e.g., GDP per capita, trade balances, poverty rates, currency exchange rates, employment rates, inflation rates, recessions, depressions) influence politics in and relations between various countries, including Canada

HFA4U

- demonstrate an understanding of various factors involved in achieving and maintaining food security;
- analyse the relationship between various economic, social, and political factors and food supply and production in a particular region or regions (e.g., debt-repayment requirements, demand for cash crops, oil prices, free-trade agreements, trade embargos or bans, controls on fishing and hunting, import-export restrictions to prevent or control outbreaks of disease)

HFA4C

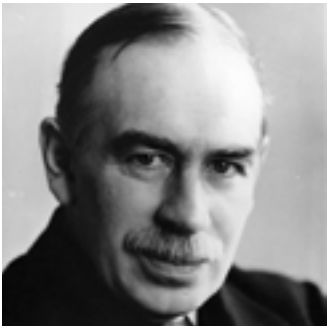
- demonstrate an understanding of various factors involved in achieving and maintaining food security;
- explain the effect of various economic, social, and political factors (e.g., debt-repayment obligations, demand for cash crops, oil prices, free trade agreements, trade embargos or bans, controls on fishing and hunting, import-export restrictions designed to prevent or control outbreaks of disease) on food supply and production

CHAPTER 18

INFLATION, CENTRAL BANKS
AND MONETARY POLICY



READING RESPONSE



By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.

— John Maynard Keynes

photo: theglobalist.com/smith-and-keynes-the-economic-insight-they-shared

DEFINE KEY TERMS

Key term	Definition
Relative Prices	
Absolute Prices	
Price Level	
Inflation	
Deflation	
Real Price	
Real vs Nominal Wages	
Real Interest	

ALL ABOUT INFLATION:

List some drawbacks of inflation:

List some benefits:

Summarize the history of how inflation rates came to be tightly controlled:

How is it measured?

AN EXAMPLE:

Let's consider a family on a fixed income. The inflation rate starts to climb. Here are the consequences:

Step 1:

The family gets their monthly income from work.

Step 2:

They buy goods they need.

Step 3:

Due to inflation, their costs go up (CPI measures a "basket of goods")

Step 4:

The family has less money next month for goods, so they have to buy fewer.

More Key terms!	Definition
Consumer Price Index (CPI)	
Quantitative Easing	
Monetarists	
Milton Friedman	
Central Bank	

Summarize the causes of inflation:

Summarize neoliberal monetary policy:

According to Stanford, is neoliberal monetary policy effective?