Teaching the General Public Inflation Basics Along With Short-Run and Long-Run Inflationary Fiscal and Monetary Policies

James K. Self
Indiana University-Bloomington

Over the years a generally accepted pedagogy has developed to teach what inflation is and how it affects the economy in macroeconomic principles undergraduate courses. The recent re-emergence of elevated inflation in the United States and other countries draws in to question this pedagogy. A pedagogical refocus on inflationary connections to productive value, store of value, and a re-evaluation of the focus used to teach fiscal and monetary policy impacts on inflation is needed. This article proposes a non-technical standalone lesson that highlights how productive activities, the store of value of money, and the relation of those two interact with inflation. It also highlights fiscal and monetary effects on both transitory and permanent inflation in the economy. This lesson is accessible to the general public.

Keywords: inflation, fiscal policy, monetary policy, pedagogy

INTRODUCTION

Inflation is an important topic across several disciplines and a rudimentary understanding of its impacts on household welfare should be a fundamental learning outcome for any undergraduate degree program as well as non-degree life skills education programs. Basic life choices are influenced by inflation and necessitate programs to provide a rudimentary understanding of how to incorporate inflationary impacts in their student's decision-making process. For students in programs that require fundamentals of economics, these students learn about inflation in lessons on macroeconomic topics taught in either a one term economic essentials course or a sequence of two to three terms of economic fundamental courses. Generally, the pedagogy for teaching inflation starts with basic definition and the introduction of a price index to quantify changes in a price level from a base point. After that is taught the discussion may provide a rudimentary discussion of inflationary effects on purchasing power or a more detailed look at short run and long run inflation.

The policy discussion of how inflation is generated is done at different points in the course and it is expressed more as a manageable aspect of the economy that can get out of control at times. Usually, a discussion of hyperinflation is used to illustrate this point. The issue is that the way inflation is controlled is not very well expressed for moderately low and elevated (e.g., moving from 2% to 10%) levels of inflation. There has also been a movement away from expressing a fundamental relationship between the value of money payments and productive work effort. What is needed is a short stand-alone lesson plan that addresses both issues and affords students a general understanding of inflation prior to a more in-depth discussion taking place for those that are taking undergraduate level introductory economic courses. Those who are not or are in the general public seeking understanding of inflation, this short stand-alone lesson

will provide general life skills needed to navigate the world we live in today. In addition, there are new college and high school courses that are increasingly being developed and incorporated into degree requirements that focus on career mapping and life skills. A stand-alone lesson on inflation of this type will be very beneficial in any life skills class that is taught in a career placement course or any course that is designed to help students enter the workforce or make more informed household decisions.

I propose a stand-alone lesson on inflation that could be taught early in an introductory economics course, or a general life skills type course taught to high school or undergraduate students, or the general public that defines (1) inflation, (2) identifies the relationship between money payments and inflationary effects of purchasing power, (3) identify connections between fiscal and monetary policy on transitory inflation that can last for serval months to a few years and (4) the way accommodating monetary policy can lead to long run or permanent inflation.

DESCRIPTION OF LESSON PLAN

This lesson plan follows Self (2022) discussion on ways inflation impacts household decisions, how cash income is affected by inflation, and what that income represents to the economy using the work of Say (1855). The lesson is intended to serve the general public and can be used as a base lecture for students at the beginning of an introductory economics course or a general life skills course at the high school and undergraduate level. The plan is designed to be basic and does not provide a rigorous look at all aspects of inflation. The goal is to provide a rudimentary understanding of what inflation is and how fiscal and monetary policy may impact inflation, with a general theme as to how inflation can impact everyday household decisions.

Lesson Purpose

At a non-technical level that is accessible to the general public, provide a path towards basic understanding of inflation and its relationship to income, fiscal policy, and monetary policy. The lesson is focused on household decisions that are influenced by government policy that has inflationary outcomes.

LEARNING OBJECTIVES

Learning Objective 1. Define the relationship between productive activities such as work and payment for that work.
Learning Objective 2. Identify how the store of value that a payment for labor or other productive inputs can be distorted by changes in purchasing power caused by inflation.
Learning Objective 3. Identify what Fiscal policy will generate fluctuations in the aggregate economy that has influence on short run inflation.
Learning Objective 4. Identify what monetary policy generates fluctuations in the aggregate economy that have influence on short run inflation.
Learning Objective 5. Identify how monetary policy can transform short run or transitory inflation into long run or permanent inflation.

Learning Objective 1

To highlight the main way that inflation impacts decisions, a deliberate discussion of how income is affected by inflation and what that income represents in the economy is needed. Self (2022) does this using the work of Say (1855). This lesson plan follows that discussion.

Inflation is best expressed as a measure of the rate of change in the value of a currency in reference to some point in time. It is usually stated as an annualized percentage rate and can have different values for the same period of time because there are different groups of goods or services that a particular index (discussed later) measure is representing. Positive or negative inflation (the latter known as deflation) implies that the money in use does not maintain the same ability to purchase goods and services as it did when it was first acquired.

We can use the term medium of exchange to describe what is used as an acceptable means of payment for goods and services, e.g., a country's money. The term store of value is used to describe how a medium of exchange holds its original ability to buy goods or services. Money's store of value can be measured by what could be bought in a base period, e.g., the date that the money was paid in wages, as compared to a different period.

Say (1855), shows how using money as a medium of exchange can distort the value of what is being traded. Fundamentally, people accept payment for things like their labor because it is seen to represent a value that is received for doing the work. For both sides of this exchange to benefit there had to be something of value to the employer received from the work and the payment of wages allows the employee to obtain through the markets something of value later. Here there is a direct connection between use of productive resources such as work effort to obtain things desired by households such as food and shelter. Two points come to light. First, if the connection between the value of productive work is obscured by say someone receiving money without doing the work and second if the value of money changes in a way that reduces the amount of goods and services that can be obtained later. Having a clear understanding of these two points facilitates a clear connection of how inflation can impact household buying and saving decisions. Self (2022) provides the following two examples that highlight these two points and sets the theme for the rest of the lesson.

> "For example, consider earning $1,000, which represents the purchasing power that is consistent with the value of your work and relative to other things of value in the economy. To keep things simple, let's say you buy ten units of goods with that $1,000 and each unit costs $100. Also assume that everyone in the economy is in a similar situation: They earn money and then buy units of goods that cost $100 per unit with the money they earn through productive work. (Partial units can also be purchased; for example, one-quarter of a unit will cost $25.) Suppose that nothing new is produced in the economy but the government prints an additional 10 percent of money and gives everyone 10 percent of his or her income (you receive $100). What happens to the purchasing power of your $1,000 if (A) this happens only once and (B) this occurs in every future period?
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> **Example A:** If this happens once and only once, the purchasing power of your earned $1,000 decreases from being able to buy ten units of goods to being able to buy only nine units of goods. This is true because the amount of goods in the economy did not change nor did the amount of productive work in the economy. The only thing that changed was how many dollars are used to exchange the original true value of productive work for the original true value of goods and services in the economy. Since you received $100 from the government you still have ten units of goods, but now those goods are bought at a price of $110 each. In the next period, we would expect market prices to adjust, and your pay would increase to account for the 10-percent change in prices. Now you earn $1,100 but are only able to buy ten goods. Results are similar for everyone else in the economy."
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> …
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> This result represents a one-time jump in prices caused by a one-time injection of money that did not represent any additional productive output in the economy. The government just printed money and gave it to everyone. Because it is a one-time occurrence it would not be considered inflation, but rather a one-time price adjustment. This result is dependent on markets clearing very quickly and moving instantaneously to their long-run equilibria without any friction in the markets. Notice that the money that represented no true value of production (the 10-percent transfer of printed money from the government) does not change the true value of the exchange of productive work effort for valued goods and services in the economy. Everyone earns $1,100, but goods now cost $110. Everyone has

a nominally higher income, but that income can only buy ten items, so the real income remains the same.

Example B: If this 10-percent income transfer from the government to everyone in the economy continues in future periods, then the purchasing power of the originally earned $1,000 decreases at a rate of 10 percent for as long as this transfer continues. This means that the $1,000 buys only nine units in the first period with the transfer and then continues to lose purchasing power in each future period in which the transfer continues. Again, the amount of goods in the economy did not change nor did the amount of productive work in the economy. The only thing that changed was how many dollars are used to exchange the same true value of productive work for the same true value of goods and services. Since you receive 10 percent of your income from the government in each future period and markets continue to adjust in those future periods, you still have ten units of goods, but those goods are bought at a price of $110 in the first period with the transfer, $121 in the next period with the transfer, and $100 times $(1.1)^n$ in period n with the transfer. Here we are again assuming that the markets clear quickly, and we also need to assume that people do not lose confidence in the value of money. The end result is that you still are only able to buy ten goods, and the situation is similar for everyone else in the economy. This time, though, the change represents inflation because it is not just a one-time price adjustment with no change after that; instead, the prices in the economy are increasing at a 10-percent rate. Notice again that the money that represented no true value of production (the 10-percent transfer of printed money from the government) does not change the true value of the exchange of productive work effort for valued goods and services in the economy."

In both examples, a person is confronted with a loss of purchasing power of the money that they are earning. This loss of purchasing power is offset by the money given to them by the government but the final amount of goods purchased does not actually change. In these examples the economic environment is considered stable and operating at full capacity. We can think of an economy operating a full capacity as a point where all the resources are employed at a long run sustainable level, i.e., workers are working the number of hours per week that they could for an indefinite period along with other resources being maintained properly for sustained use. Economists use the term potential output interchangeable with the term full capacity. In addition, we see inflation, in these two examples, as stable in terms of a long-run rate (in example A, it is 0% and in example B it is 10%).

What if this is extended to a more volatile set of markets that take some time to adjust and during this time the changes in purchasing power of the money earned or simply received is not fully recognized immediately and/or the economy is not at full capacity? To answer this question, we need to explore in more detail the impact inflation has on purchasing power in different time settings.

Learning Objective 2

In the aggregate, when we measure the value of transactions across the whole economy, we can use a relationship known as the equation of exchange as described by Fisher (1911). This equation has a longer history, but current versions are normally given credit to Fisher (1911). The equation of exchange relies on the idea that the value of what is paid for goods and services in the economy equals the value of the income that is received for producing and selling those goods and services in the economy. To see how we can use this idea we will need to understand details on the four variables in the equation of exchange.

First, we need a measure of prices. We can think of a measure of market prices of goods and services aggregated across the economy, denoted as P, as a price index that measures the amount paid for those goods and services in a current period divided by the amount paid for those goods and services in a base or reference period. We just need to recognize that this price index can be calculated, and we are denoted it as P. In the news there are measures just like this with the most popular being the Consumer Price Index and

is normally expressed by how the value has changed over a month or a 12-month period. Just about all countries have a version of the CPI that they release on a regular basis.

Second, we need to consider the value of production in an economy. If we aggregate the value of final production across the economy, we can use that value to measure income. We are describing the value of what is produced and what is paid to people in terms of income in the economy. A common measure of this value is Gross Domestic Product (GDP), formally it is the value, in a country's currency, of the market value of final production of all goods and services produced within a country's borders and usually expressed in terms of a year. If we measure GDP using the value of what a base year or reference year currency can purchase (say for year 2021), then we transform our basic measure of GDP to a measure of GDP in the base year's currency value (e.g., use 2021 prices to measure 2023 transactions instead of 2023 prices). We call this adjustment to GDP "real" GDP. The term real is to denote that an adjustment was made to represent the value of production in a base year's currency value. We will denote real GDP as Y_r. If we multiply Y_r by our previous price index P we have the value of GDP again in terms of the current year (this is also called nominal GDP with the word nominal meaning in the current year prices). Consider the situation that in any year if you look at the value of all transactions, the amount paid for those transactions must equal the amount received in payment in those transactions, e.g., what is paid must equal what is received.

Third, we need to have value for money in the economy for the period that we are considering, we will denote this as M. Common measures of money in the economy are provided by a country's central bank. We just need to recognize that this represents the amount of money in the economy for the period under consideration.

Fourth, we need to consider that a country's money is expressed in defined units, such as the dollar. Over a year, a particular dollar can be used more than once in multiple transactions. For example, I use a dollar to buy a pack of gum that dollar goes to the store where I made the purchase. In turn, the store owner can then use that same dollar to purchase a cup of coffee in a separate transaction. The number of times that a unit of currency (e.g., a dollar) is used for transactions is called velocity in the equations of exchange and is denoted as V. If we multiply M and V together it will represent the total amount of money that was paid to buy goods and services in the economy.

The equation of exchange just recognizes that the value of the transactions, MV, equals the current value of the production or income in the economy, PY_r. The equation of exchange is expressed as $MV = PY_r$. We can also express the equation of exchange in a growth rate version that measures the percentage change over the period in the four variables, e.g., M, V, P, and Y_r. When transforming this to the growth rate version the equation of exchange becomes $\%\Delta M + \%\Delta V = \%\Delta P + \%\Delta Yr$, with $\%\Delta$ denoting percentage change. This version says the growth rate of money plus the growth rate of velocity of money equals the inflation rate plus the growth rate of real GDP.

In Self (2022) the equation of exchange and the earlier examples A and B was used to show differences between a one-time jump in prices and an ongoing inflationary change in prices. This understanding will be important to identify the differences between government policies that lead to temporary or transitory changes in inflation and long run or permanent changes in inflation. From Self (2022),

> "….In example A above, we could use the equation of exchange to illustrate the point. For simplicity, assume there is only one person in the economy. Then the example has $Y_r = 10$, and we let $V = 1$, $M = 1{,}000$, and $P = 100$. Substituting our numbers into $MV = PY_r$ we get $(1{,}000)(1) = (100)(10)$. Then once the additional \$100 is printed and transferred to the person and the markets adjust, we have $(1{,}100)(1) = (110)(10)$."

> "…[In example B] Rewriting our equation, we have $\%\Delta P = (\%\Delta M + \%\Delta V) - \%\Delta Y_r$. In this example, no new production is done, and we will assume that the velocity of money does not change. This means that $\%\Delta V$ and $\%\Delta Y_r$ are both equal to zero. Substituting in the values given earlier, we have a value for inflation: $\%\Delta P = 10\% + 0 - 0$. This is a long-run effect showing that inflation is dependent on the growth rate of money in the economy."

Notice in both cases there was no new productive activity in the economy and in both cases the result was just a change in the prices of goods and services. In example A, it was seen through a onetime increase in prices and in example B prices it was seen as an ongoing increase in prices at a rate of 10% for as long as the transfers continue without any new production in the economy. We will consider next when those changes might not be instantaneous in the aggregate economy. Our earlier example A will provide the foundations of how government policies can lead to short-run or transitory inflation and example B will provide the foundation of how accommodating monetary policy can change long-run or permanent inflation in the economy.

If velocity is stable in the long run and we recognize that real factors such as technology innovation, capital, labor, and labor skills drive long run growth of Y_r, then we have a clear relationship between inflation and money growth in the long run. This relationship is known as the quantity theorem of money, see Friedman (1956) and Hunte (2012). This theorem is generally accepted for the long run. It highlights that the growth rate of the economy is dependent on productivity and other nonmonetary factors in the economy. It also highlights that the institution that controls the money supply in the economy ultimately has control of the long run inflation rate.

When considering government actions that can affect the overall economy, we need to consider those policies that lead to short-run effects and long-run effects. Fiscal policy has to do with how the government spends money and collects revenue through taxes and borrowing. Monetary policy deals with the way that the government manages the money supply to achieve its goals. Monetary policy is normally done by the country's central bank. The remaining learning objectives identify fiscal and monetary policies that impact inflation. Learning objectives 3 and 4 describe short run policy and learning objective 5 discusses policy that influences long run inflation.

Learning Objective 3

Normally, inflation is just reported in the news as a single rate shortly after information on the prices of goods and services that the typical family pays for things changes in the current month as compared to a year earlier. This measurement is normally made by using information found in the country's consumer price index (CPI), which measures the cost of a typical basket of goods that a typical family purchase. If that basket costs $100 in the base year (the point that the index is comparing other periods too) and $150 for the same basket one year later then the change in cost of the basket would be 50% over that year. However, there is a broader time dimension to inflation. Market prices do not always adjust instantaneously and that is generally true throughout the economy. Along the path to adjusting there are likely to be new things that affect the supply and/or demand in those individual markets. These adjustments to new market prices can be thought of as short run process. In aggregate, if we are looking at a basket of goods such as the CPI does, the rate of change over one year is inflation and it is temporary, or transitory, if these are occurring because of short run market adjustments.

Market adjustments happen all the time as each market moves to a stable point called equilibrium following some shock to that market. A shock to the market occurs when some factor alters the desire to buy the good or service that is expressed in the marker demand for that good or the desire to sell the good or service that is expressed in the supply of the good or service. Things such as production cost of a good or service have direct influence on supply of that good or service. If we once again aggregate all the market demand for all goods and services across the whole economy, we can think of this aggregation as aggerate demand in the economy. Likewise, if we aggregate all the market supply for all goods and services across the whole economy, we can call this aggregate supply in the economy.

When considering the aggregate economy, we can break down how different shocks or changes to the economy influences inflation by which side of the economy is driving the changes. If aggregate costs of production changing, we call this cost-push inflation. If aggregate demand changes the overall amount of goods and services desired, then we call this demand-pull inflation. These types of changes can come from non-government policies and government policies. Aggregate adjustments can affect inflation over a short period of time. However, the length of time is not known with certainty. It depends on economic conditions and the length of time could be very different in different environments. It could last a few months or even

a few years. At the end of a transitory period short-run period the final higher price level would have changed but the inflation rate would return to its long run rate if there were no changes to the growth rate of the money supply and there were no other structural changes in the economy.

Let's consider government policies that can affect, in the short run, inflation. Cost-push inflation can start with policies that add cost to the production process throughout the economy. Policy related to energy production has an impact across the economy because energy is needed for all phases of production, delivery, and management of goods and services. A regulation that restricts energy production will add cost to production throughout the economy. A tax that is paid for selling energy adds a cost across the economy in the same way. Other types of markets that have this broad of an impact are industries that produce raw commodities such as corn, wheat, livestock, metals, and other major raw inputs to production. Similar policies in regulation that add cost or tax of those inputs will add costs throughout the economy. If regulation reduces costs or taxes are removed, then the impact would be to lower production costs across the economy.

Considering our earlier example, example A, if the government has a policy that increases transfers (giving money in some way, e.g., increase in unemployment compensation) to people and does not require any work that leads to new production in the economy, we will see the prices over that short-run period increase. That increase would be reported as inflation in the news because the measurement would be looking at percentage changes in an index like the consumer price index discussed earlier between one month and one year. This type of transfer is used by governments to increase aggregate demand in the economy with the hope that it will move the economy towards a long run equilibrium. However, it can also be overused and with the additional reductions in work requirements to receive those transfers can lead to demand pull inflation. This was happened in the United States with the enactment of the American Rescue Plan Act of 2021, which temporarily increased transfers to people without any new production in the economy or meaningful work requirements to receive the transfers. This demand-pull inflation, caused by people spending additional money that they receive from the government and would not have otherwise and with no lasting additional production in the economy. Evidence of fiscal policy over the period of December 2019 to June 2022, in the United States is provided by di Giovanni et al (2023). In di Giovanni et al (2023) they fine that a majority of demand-pull inflation experienced in the United States (as much as 51% of shock to aggregate demand) resulting from fiscal policy stimulus. They found about two thirds of the increase in inflation can be explained by aggregate demand shocks.

Related to this example is a classic debate about the possible tradeoff between inflation and unemployment. In the short run, spending growth may lead to inflation but that new desire for goods and services may also lead to increased production if the economy is not at its full production capacity at that point in time. If this does lead to new production, then it will lead to additional resources being employed and reduce unemployment in the economy. The debate is about how long this may last and the size of the tradeoff. It is widely accepted that short-run inflation can be initiated by cost-push and/or demand-pull events in the economy. These events can occur due to deliberate fiscal or monetary policy or non-policy economy environment shocks. American Rescue Plan Act of 2021 (and seen in the earlier example A), in which there is an increase in government transfers without any new production, illustrates a demand-pull event. Long-run inflation is related to the money supply permanently accommodating inflation (as seen in the earlier example B). In an economy, a tradeoff between unemployment and inflation can only exist in the short run. In general, the public has an expectation of what the rate of inflation is and if the trend is to recognize a change in the seen inflation rate, then this expectation will change. The earlier trade-off between short run inflation and higher production can only occur before inflation expectations fully adjust to the actual inflation rate in the economy. In the long run, the economy would revert to operating at full capacity, and employment would be consistent with that level of economic activity (beyond that you would be trying to employ resource beyond what they can sustain for a long period of time such as working 100 a week for several years).[1]

Fiscal policy to include regulatory rules enforced by law affects aggregate demand and aggregate supply. When changes to these policies and rules occur, depending on the magnitude of the effect, they influence short-run inflation (either in a positive or negative way) while the economy is adjusting to full

capacity or its long run equilibrium. How volatile this process is and how long it takes depends on the economic environment. It can take a few months to several years for the economy to move to a long run equilibrium.

Learning Objective 4

Monetary policy is another type of governmental policy that has an impact on the short run inflation rate and is used by central banks to help move the economy towards and remain operating at full capacity. It has an advantage over fiscal policy that is trying to achieve similar goals in that it does not need to go through a lengthy legislative process. The policy involves an assessment of the economy and using its influence over interest rates in the economy to either increase or decrease aggregate demand in the economy. This influence over interest rates in the conduct of monetary policy comes from its substantial influence on the country's money supply. Today, central banks are tasked by law to conduct policy that stabilize inflation. In both the United States and Canada, for example, both have a twin mandate set by law to maintain stable inflation and high employment in the economy.

In general, central banks can influence interest rates in the economy by using several policy tools available to them. This is done to motivate households and businesses to change their purchasing decisions. Consider the cost to borrow money is represented by how much must be paid in interest payments to borrow that money. When the central bank wants to make this cost less and increase the use of credit to buy things in the economy it tries to increase the amount of loans by using expansionary policy to reduce interest rates and motivate more aggregate spending in the economy or contractionary policy to increase interest rates and motivate less aggregate spending in the economy. In both cases it manipulates credit access in the economy through its direct influence on the money supply but does it through effecting interest rates in the economy.

Self and Huynh (2022) show how policy tools such as payment of interest on bank reserves and open market buying and selling of securities to and from the central bank are used to affect the broader economy's interest rates. Monetary policy is a deliberate attempt to implement policy tools in a way that will work its way through the private sector financial markets. If done successfully, the policy will affect aggregate demand in the economy when households and businesses change their buying decisions because the policy influenced the cost of borrowing.

Once again as we seen with fiscal policy, the changes generated by policy on aggregate demand impacts the short run rate of inflation as the economy adjusts to those changes. However, what has been described can occur only as long as the adjustment process is occurring, and households and businesses are less certain of the actual rate of inflation in the economy. Once the economy moves to full capacity and households and businesses recognize the true level of inflation in the economy, this process stops. At times it is not easy for everyone in the economy to have the same prediction of inflation. Households tend to have a different prediction than business for example. Ries (2023) highlights four important mistakes in measuring what the public expects inflation to be. His work highlights that it is unlikely that everyone in the economy will understand what the actual inflation is at the same time. Candia et al (2023) furthers the discussion of the deferent expectations of inflation in the economy by confirming Jonugh's (1981) work on how households form their expectation on inflation through different information sets and experience in now shows firms do the same with their experience with things such as input prices and getting the inputs they need in a timely manner (supply change issues).

As a side, when considering the impact on decision making more troubling is high and volatile inflation, because it is harder to accurately incorporated greatly changing rates into a precise cost. Not only do problems emerge when purchasing power is getting less due to positive inflation rates but negative inflation, called deflation, interferes negatively on the economy. When households and businesses expect deflation, they tend to delay making purchases today. For businesses that must account for changes in the value of assets in their balance sheets, periods of deflation can have a greater, in a negative way, influence on their purchasing decisions than the same amount of positive inflation. Taken all together monetary policy makers and economists in general consider a low positive rate of inflation that is stable and predictable is best in

an economy. This helps markets to more quickly to equilibria and the economy moves to full capacity faster.

The long run inflation rate is a rate that is consistent with the economy operating at full capacity and the rate of inflation in the economy that is expected by households and businesses and is the actual rate of inflation. For this rate to be consistent it must be maintained by an appropriate money supply in the economy. Learning objective 5 closes out this lesson with a description of how the central bank, through its control of the money supply, ultimately sets the long run or permanent rate of inflation in the economy.

Learning Objective 5

In the earlier discussion of learning objectives 1 and 2 and as illustrated in example B, identified that when the economy is at is full capacity in terms of production and we are operating in an environment when the quantity theory of money is valid, the growth rate of money is the principal factor that determines the rate of inflation in the economy. For this rate to be stable and easily identified by households and businesses in the economy, it must be true that long-term average inflation is in fact the same as expected.

Central banks such as the Federal Reserve system for the United States and the Bank of Canada have as one of their principal policy goals to conduct monetary policy so that the country has low and stable inflation. An inflation target is generally used by policy makers to guide their decisions. Many central banks have either formalized legislative requirement or as an internal set rule to target an inflation rate over a long-run period that is symmetric around that target rate. For the Federal Reserve system that is 2-percent inflation based on the personal consumption expenditure price index for the United States, see Martinez-García and colleagues (2021). You can think of this price index as being based on personal expenditures on goods and services by people living in the country.

CONCLUSION

This paper describes a lesson plan that can be used to educate the general public and be used as a baseline discussion in an undergraduate introductory economic course discussion on inflation. It is designed to emphasize foundational relationships between productive activity in the economy and compensation for that activity, in the form of money, that is subject to inflationary changes in its purchasing power. This connection is important for understanding how fiscal and monetary policies can affect inflation in both the short and long runs. It is this connection, production activity and compensation for that activity being affected by inflation, that is missing in the general public's perceptions of policy impacts on the economy, which leads to less informed household decisions and potential welfare loss.

The relationship between productive activity and compensation for that activity being affected by inflation appears to have lost its way in the pedagogy teaching inflation to beginning students and the general public. The five learning objectives described in the lesson plan are done in a non-technical format that is sufficient to give a good understanding of the topic that is consistent with more technical discussion that would be made in rigorous economic degree programs. This type of pedagogy is not necessarily new, but it is hard to find.

Beyond the topic of inflation there are other topics that could use a non-technical pedagogy to teach fundamental economic lessons to the general public. Moving forward, lessons to show the policy path back to a desirable inflation target would be beneficial. This lesson would be most beneficial to the general public if it focuses on both economic growth policy and required monetary policy to support long-run growth in the economy. This is a current work in progress. Already started in Self and Huynh (2022) a general public lesson on the implementation of Monetary policy is also a lesson on the earlier agenda. The idea is to create accessible general public lesson plans. Several other topics can be considered. The main concluding comment is to use this lesson as a beginning point and establish an accessible venue to create and distribute standalone lessons for the general public and instructors interested in teaching their students basic economic policy related lessons.

ENDNOTE

1. See Schwarzer (2018) and Hall and Sargent (2018).

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