Prices in Motion

Trace why prices rise and how people respond

E.5.3 "Identify the different causes of inflation (i.e., cost-push and demand-pull), and explain the impact of inflation on economic decisions."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline one chain of events that shows rising production costs, and circle one chain that shows spending growing faster than supply. Number two decisions people make in response to higher prices.

What Is Driving Harborview's Prices?

1. In Harborview, families notice that their weekly budgets do not stretch as far as last year. Inflation means a sustained rise in the overall price level, not just a higher price for one item. A city report shows that prices across many goods and services have risen for several months. Economists look for what set the rise in motion. Two common explanations are cost-push inflation, which starts when producing goods or services becomes more expensive, and demand-pull inflation, which starts when total spending grows faster than businesses can supply goods and services.

2. A storm closes a nearby fuel terminal for weeks. Delivery companies must buy fuel from farther away at higher prices. Their shipping bills climb, and several grocery stores raise prices to cover those bills. This chain adds cost-push pressure: the stores did not raise prices because shoppers suddenly wanted more food. Nia runs a small café and faces higher delivery charges for milk and bread. She considers offering a shorter menu rather than raising every price, since higher menu prices might drive customers away. Even if the terminal reopens, prices across the economy will not necessarily fall right away.

3. At the same time, a wave of new jobs raises household incomes across Harborview. Many households buy more meals, repairs, and clothing, but local businesses cannot add workers or stock quickly. With spending rising faster than output, businesses increase prices. This adds demand-pull pressure to the citywide inflation already underway. Omar expects his paycheck to stay the same this year, so he postpones a phone upgrade and compares grocery prices. His savings account pays interest, but if its rate is below inflation, the money's purchasing power still falls.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does the storm lead to cost-push pressure on grocery prices? Trace the steps.

2. Why does the wave of new jobs create demand-pull pressure rather than cost-push pressure?

3. How do higher delivery costs affect Nia's business decision, and what risk does she hope to avoid?

4. Why might Omar's savings lose purchasing power even though the account pays interest?

3 YOUR TURN

Your own words

Invent a town facing one cost-push shock and a separate demand-pull shock. In three or four sentences, explain how each could add to inflation and describe one decision a household or business makes in response, including its reason.

ANSWER KEY

Prices in Motion

HIGH SCHOOL · E.5.3

PART 1 · READ AND MARK

Underline one chain of events that shows rising production costs, and circle one chain that shows spending growing faster than supply. Number two decisions people make in response to higher prices. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does the storm lead to cost-push pressure on grocery prices? Trace the steps.	**The storm closes a fuel terminal, so delivery companies pay more for fuel from farther away. Shipping costs rise, and grocery stores raise prices to cover them.**
2	Why does the wave of new jobs create demand-pull pressure rather than cost-push pressure?	**Higher incomes lead households to spend more, while businesses cannot increase their output quickly. The pressure begins with spending outpacing supply, not with rising production costs.**
3	How do higher delivery costs affect Nia's business decision, and what risk does she hope to avoid?	**Nia considers a shorter menu instead of raising every price. She hopes to avoid losing customers to higher menu prices.**
4	Why might Omar's savings lose purchasing power even though the account pays interest?	**If the interest rate is below the inflation rate, prices rise faster than his savings grow, so the money buys less.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In Ridgefield, a drought raises the cost of crops used by many food producers, who increase prices to cover those costs, adding cost-push pressure to inflation. Meanwhile, a new factory hires hundreds of workers, and their increased spending on local services outpaces the appointments businesses can offer, adding demand-pull pressure. As prices rise across many purchases, a family repairs its old washer instead of buying a new one. The family expects its unchanged income to buy less than before.

Accept different accurate causal chains from the passage. For the open task, look for separate cost and demand shocks, a plausible effect on prices, and a decision linked to inflation.