

Chapter 6

Objectives

- Define inflation, deflation and the consumer price index
- Explain how the CPI is measured
- Calculate the price index and the rate of inflation
- Convert from real to nominal values
- Explain the causes and effects of the CPI overestimating true inflation
- Discuss the five costs of inflation
- Define hyperinflation and its effects
- Define and calculate the nominal and real rate of interest
- Discuss the relationship between the inflation rate and interest rates