INFLATION **24 APRIL 2014**

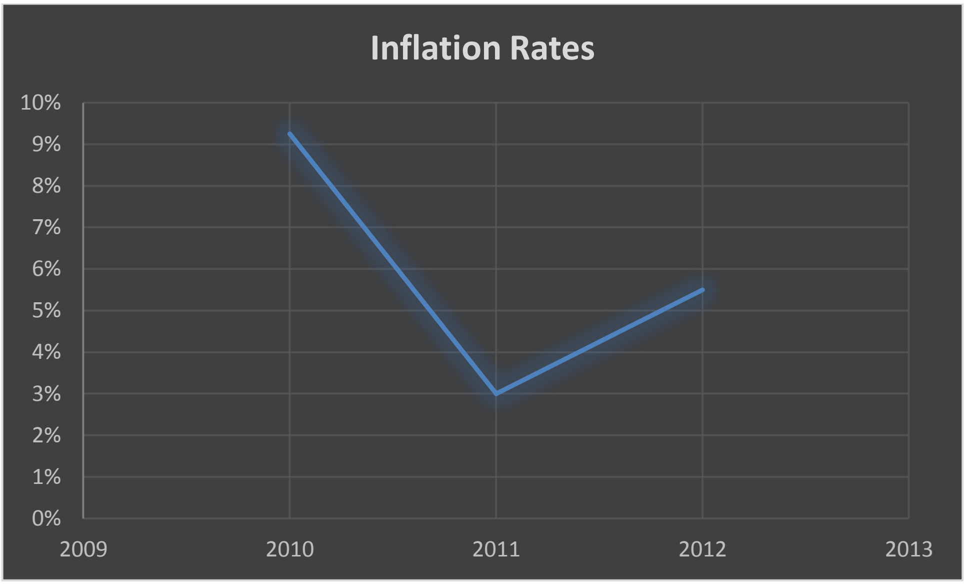
Lesson Description

In this lesson we get introduced and do questions about:

- Inflation
- How inflation affects the cost of living
- Calculations with Inflation

Challenge Question

Consider the graph below.



Have the price of goods increased or decreased from 2010 to 2011? Explain.

Summary

Inflation

Inflation is a way to measure how the purchasing power of money changes over time.
Inflation represents the average change in the prices of various goods or services over time. The prices of all goods and services do not increase or decrease by the same amount over a certain time period. This is why inflation is an average value. The inflation rate is given as a percentage increase per annum.

When the inflation rate is given as a positive percentage this tells us that the average price of goods has increase. This means that the value of money has decreased over time.

When the inflation rate is a negative percentage this tells us that the average price of goods has decreased.

In South Africa, the Reserve Bank has been instructed by government to monitor inflation and keep the inflation rate between 3% and 6% per annum.

Test Yourself

Question 1

A newspaper article quotes Stats SA saying the inflation rate for year on year at the end of March was 6%. This means that:

A Petrol increased by 6% between March 2013 and March 2014

B The average price of a selection of goods increased by 6% in March 2014

C The average price of a selection of goods increased by 6% for the year ending 31 March 2014

D Petrol increased by 6% between 1st March 2014 and 31st March 2014

Question 2

When the rate of inflation is 6% p.a this means that

A the selling price of all goods have increased by 6% in one year

B the selling price of selected items have increased by 6% in one year

C the average selling price of selected items have increased by 6% in one year

D the maximum increase in the price of groceries is 6% for one year

Question 3

A sample of goods cost R500 in March 2013. The inflation rate at the end of March 2014 is 6% per annum. What price are you likely to pay for the same sample of goods in April 2014?

A Exactly R470

B Between R500 and R525

C Between R525 and R535

D Exactly R530

Question 4

In Zimbabwe, the inflation rate was reported to be -3,5% p.a recently. This means that:

A The average price of goods increases at 3,5% in a year

B You can buy less items for the same money this year than last year

C You can buy more items for the same money this year than last year

D Things seemed to have got more expensive

Question 5

The inflation rate in a certain country was 8%p.a in 2012, 12% p.a in 2013 and 2% p.a in 2014. This means that to buy a sample of goods you would

A pay more in 2012 than in 2013

B pay more in 2014 than in 2012

C pay less in 2014 than in 2013

D pay the most in 2013

Question 6

James earns R10 000 each month. He received an annual increase of 5% at the beginning of 2014. The inflation rate in 2014 is 6% per annum. This means that:

A James is better off in 2014 than in 2013

B James can afford to buy more goods in 2014

C James will have less money to save in 2014

D James' expenses in 2014 will be less in 2014

Question 7

In 2010 the inflation rate was 5,5% per annum. The change in inflation rate between 2010 and 2011 was 3%. This means that:

A Prices increased by 3% in 2011

B Prices decreased in 2011 as inflation decreased

C Prices stayed the same on average

D Prices increased by 8,5% on average between 2010 and 2011

Question 8

In 2012 the inflation rate was 4,5% per annum. The change in inflation rate between 2012 and 2013 was -1,5%. This means that:

A Prices increased by 1,5% in 2013

B Prices decreased in 2013 as inflation decreased

C Prices decreased by 3% on average between 2012 and 2013

D Prices increased by 3% on average between 2012 and 2013

Improve your Skills

Question 1

Consider the table below which gives the inflation rate of a new particular motor vehicle over a period of time:

Period of Time	Inflation Rate
From 1 January 2005 to 1 January 2006	14%
From 1 January 2006 to 1 January 2007	6,75%
From 1 January 2007 to 1 January 2008	-4,5%

1.1 If the car cost R144 500 on 1 January 2005, then determine the cost of this same vehicle on 1 January 2006.

1.2 What would someone pay for this type of vehicle on January 2007?

1.3 What does the negative sign indicate in "-4,5%"?

1.4 What would a new vehicle cost on 1 January 2008?

Question 2

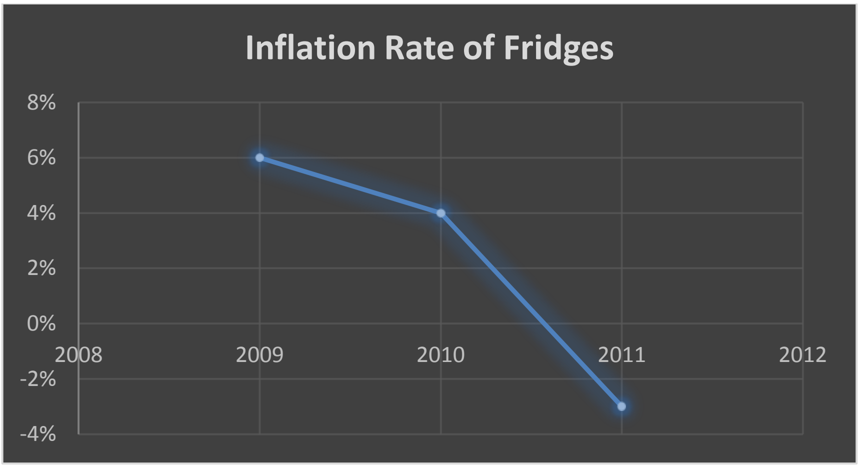
Mr Mnisi works at "SUPA-SPAAR" and earns a net salary of R8 570,00 a month. Due to the fact that SUPA-SPAAR" is not doing well, Mr Mnisi does not get an increase in his salary the following year. Mr Mnisi has monthly expenses that amount to R7 850,00. Due to inflation his expenses rise by 6,9%.

a) What is a "net salary"?

b) With the use of calculations, show what sort of financial position Mr Booboolezi will be in the year in which he did not get an increase?

Question 3

Consider the following graph which illustrates the inflation rate of Fridges over the past 3 years.



3.1 Could one say that the price of the fridges decreased every year? Explain.

3.2 A fridge is advertised as R3 293,00 in 2008. Because Mr Yen cannot afford to buy the fridge for cash, he buys it on Hire Purchase.

15% deposit

R166 a month for 3 years

R7,50 a month admin fees

a) What would the fridge have cost Mr Yen after 3 years had he bought it on 1 January 2008?

b) How much would the fridge cost Mr Yen if he were to buy it for cash on 1 January 2011?

Question 4

At the end of a year, Mrs Peter gets a salary increase of 5% on her net salary of R10 458 a month. The next year the inflation rate rises by 7,3%. Mrs. Peter is really upset until her boss tells her that she will be getting an increase of R679,77 a month. Her money problems are over…well, that's what Mrs. Peter thinks anyway.

With the use of calculations, show if Mrs. Peter is in a better financial position after her increase.