Teaching About Money, Spending, and Inflation Using a Classroom Inflation Auction

Lesson Author

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Standards and Benchmarks (see page 6)

Lesson Description

Students participate in two auctions: The goods in each auction are identical, but the amount of money given to students increases from the first to the second auction. Students learn that if spending grows at a faster rate than the economy's ability to produce goods and services, inflation will result. This is inflation caused by "too much spending chasing too few goods."

Grade level

Middle School and High School

Concepts

Inflation

Money

Spending

Objectives

Students will be able to

- define money and inflation; and
- describe the relationship between the money, spending, and inflation.

Compelling Question

What is the relationship between spending and inflation?

Time Required

20 minutes

Materials

- "Teaching About Money, Spending, and Inflation Using a Classroom Inflation Auction" PowerPoint slides
- Handout 1 (Funny Money), enough copies cut apart so that each student will receive approximately 12 bills each, keeping in mind that some students will receive more bills than others

OR

- Enough beans so that students will receive approximately 12 beans each, keeping in mind that some students will receive more beans than others
- Two sets of three identical items for two auction rounds; items should be of interest to students, for example, a candy bar, homework pass, and hall pass

Preparation

Divide the Funny Money (or beans) so that approximately one-third is available for auction Round 1 and two-thirds is available for auction Round 2.

Procedure

Part 1: What Is money and its relationship to spending?

1. Display slide 2. Introduce the activity by asking the students, "What is money?" (*Answers will vary.*)

2. Display slide 3. Explain that money is anything widely accepted in exchange for goods and services. More precisely, U.S. currency is fiat money, which means it has no intrinsic value (no value of its own) or representational value (not representing anything of value, such as gold).

3. Discuss the following about why people value U.S. dollars:
   - Why are you happy when you get U.S. dollars in a birthday card? (*U.S. dollars can buy goods and services.*)
   - Why do employees work to receive U.S. dollars? (*Answers will vary but will likely include that people work for money so that they can buy the goods and services they want.*)
   - Why do businesses accept U.S. dollars in exchange for other goods or services? (*Businesses accept U.S. dollars so that they can pay employees and buy other goods and services.*)

4. Display slide 4. Explain that money facilitates spending, but too much or too little spending can cause problems. Discuss the following:
   - How would your spending likely change if you had more money? (*They would likely buy more goods and services.*)
   - In general, is spending good for the economy? (*Yes, more spending can lead to more production of goods and services. More production can lead to more jobs and income for people. This chain of events results in an expanding economy.*)

- If more money results in more spending, and more spending can cause economic growth, why shouldn't the government continuously give people money to support the economy? (*Answers will vary.*)

Part 2: Inflation Auction

1. Distribute the Funny Money (or beans) to students in a random fashion. Attempt to make sure that the amount of money students receive is varied (2 to 6 bills [or beans] each) to ensure that someone wins the auction rather than it ending in a tie.

2. Display slide 5. Tell the students they will participate in an activity designed to help them understand the role of money and spending in the economy. Explain the rules for the auction:
   - Three items will be auctioned (by the teacher).
   - The highest bidder will win each item.
   - The three items represent the total output of goods and services produced in the classroom economy.
   - Each Funny Money bill (or bean) is worth $1.
   - You may not combine your money with anyone else's in the room.

3. Show the students the three auction items. Conduct the auction as follows:
   - Invite the students to bid, sell each item to the highest bidder, and note the final selling price of each item. Collect the Funny Money (or beans) from each winner as part of the transaction.

4. Display Slide 6. Record the price of each item sold and calculate the total.

5. Explain to the students that you will conduct another auction round as follows:
   - You will distribute additional money.
   - You will auction three items identical to the ones from Round 1.
   - If anyone has money left over from Round 1, he or she may use that money in this round. The "new" money is equal in value to the old money.

6. Distribute in random amounts approximately double the amount of money distributed in Round 1 (perhaps 6 to 12 bills [or beans] each). Conduct the auction as before. NOTE: Prices should be considerably higher in Round 2. If students are not bidding high prices, encourage more bidding by reminding students that this is the final auction round and that their money cannot be used to buy goods and services outside the classroom.

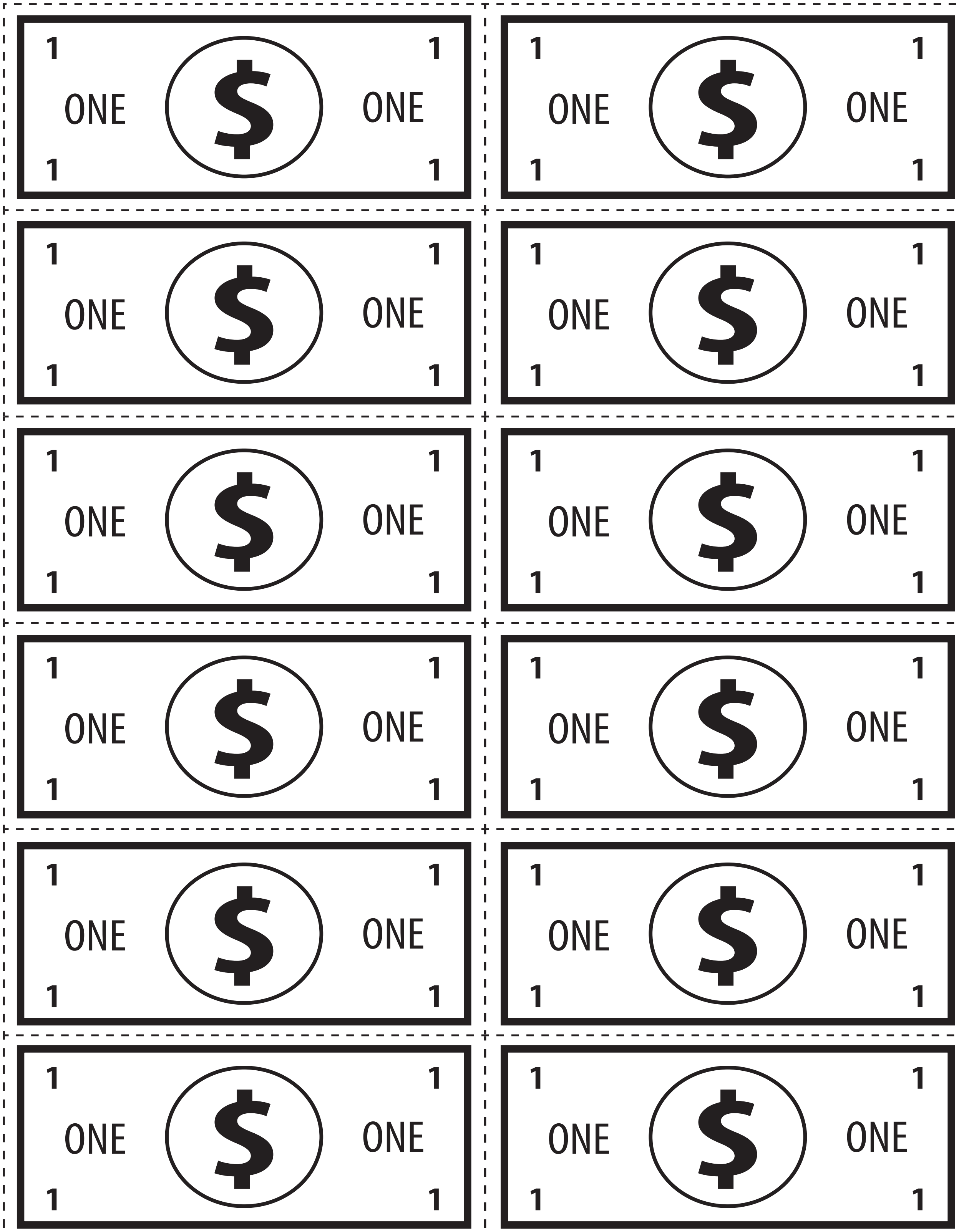
7. Complete the Round 2 column on Slide 5. Discuss the following:
   - What happened to prices in Round 2 compared with those in Round 1? (*Prices were higher in Round 2.*)

- What happened to the total amount of money spent in Round 2 compared to Round 1? (*Total spending was higher in Round 2.*)
- Were the goods in the auctions different in any way? (*No, they were exactly the same.*)
- Were there any more items available to buy in Round 2 than in Round 1? (*No, the number of items was the same in both auctions.*)
- Why were prices higher in Round 2? (*People had more money in Round 2, so they were able to bid higher amounts for the identical items than they could in Round 1. In short, more money fueled high spending.*)
- Assuming the quantity of goods and services remains constant, how would you summarize the relationship between the spending and prices? (*The level of spending and the prices of goods and services are directly related.*)

8. Display Slide 7. Explain that the increase in prices between Rounds 1 and 2 is an example of inflation. Further explain inflation as follows:
    - Inflation is a general, sustained upward movement of prices for goods and services in an economy.
    - Inflation is an increase in the average level of prices in the economy, not the individual prices of a few goods. For example, while the prices of gasoline and movie tickets might increase, the prices of computers and baseball tickets might decrease.
    - Inflation occurs when "too much spending is chasing too few goods." This is likely to occur when spending increases at a faster rate than the supply of goods and services produced in the economy.
    - Money is important because it provides the opportunity to spend, but ultimately it is the spending that drives economic activity, and potentially, inflation.

9. Display Slide 8. Conclude the activity by discussing the following:
    - What is money? (*Anything widely accepted in exchange for goods and services*)
    - Why is money useful? (*People spend money to purchase goods and services. Money facilitates spending*.)
    - What is inflation? (*Inflation is a general, sustained upward movement of prices for goods and services in an economy*.)
    - What is the relationship between spending and inflation? (*Inflation is caused when spending increases at a faster rate than the supply of goods and services produced in the economy. In short, inflation is caused by too much spending chasing too few goods*.)

Handout 1: Funny Money



Standards and Benchmarks

Voluntary National Content Standards in Economics

Standard 11: Money and Inflation

Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services. The amount of money in the economy affects the overall price level. Inflation is an increase in the overall price level that reduces the value of money.

- **Benchmarks: Grade 8**
    4. Inflation reduces the value of money.
- **Benchmarks: Grade 12**
    5. In the long run, inflation results from increases in a nation's money supply that exceed increases in its output of goods and services.