



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

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Standards and Benchmarks (see page 7)

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." To obtain the "Teaching about Money, Spending, and Inflation Using a Classroom Inflation Auction Handout and Assessment Answer Key," contact Amy Hennessy at amy.hennessy@atl.frb.org

Concepts

Inflation
Fiat Money
Money

Objectives

Students will be able to

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

Compelling Question

How are money, spending, and inflation related?

Time Required

40 minutes

Materials

- *"Teaching About Money, Spending, and Inflation Using a Classroom Inflation Auction" PowerPoint slide deck, slides 1–XX*
- *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.*
- *Handout 2, one copy for each student*



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

1. Display Slide 2 and introduce the activity by asking the students what money is. (*Answers will vary.*)
2. Display Slide 3 and explain that money is anything widely accepted in exchange for goods and services. More specifically, U.S. currency is fiat money, which means it has no intrinsic value (no value of its own) or representational value—it doesn't represent anything of value, such as gold. This is true of most money used in the world including the British pound, the European Union's euro, the Australian and Canadian dollars and more.
3. Ask students why they value U.S. dollars. (*Answers will vary, but may include because they can spend it, because they can save it, because other people will accept it.*) Discuss the following.
 - Why are you happy when you get U.S. dollars in a birthday card? (*I can spend them. I can use them to buy stuff.*)
 - Why do employees work to earn U.S. dollars? (*Answers will vary but will likely include so that they can pay bills with it, spend it to buy goods and services they want.*)
 - Why do businesses accept U.S. dollars in exchange for goods or services? (*Businesses accept U.S. dollars so that they can pay employees and buy other goods and services.*)
4. Explain that money facilitates spending, but too much or too little spending can cause problems. Ask students how their spending would likely change if they had more money. (*They would likely spend more money.*)
5. Display Slide 4 and discuss the following.
 - In general, spending is good for the economy.
 - 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.
6. Display Slide 5 and pose the question: If more money results in more spending, and more spending can cause economic growth, why shouldn't the government continuously add money to the economy? (*Answers will vary.*)
7. Tell students they will participate in an activity designed to help them understand the role of money and spending, in the economy. Distribute the funny money cut from Handout 1 or beans to students in a random fashion. Ensure that the amount of money students receive is varied (2 to six bills or beans each).
8. Display Slide 6 and review the rules for the auction as follows:
 - Three items will be auctioned (by the teacher).
 - The three items represent the total output of goods and services produced in the classroom economy.
 - The highest bidder will win each item.



- Each Funny Money bill (or bean) is worth \$1.
 - You may not combine your money with anyone else's in the room.
9. Show the students the three auction items. Conduct the auction as follows:
- Invite the students to bid.
 - Sell each item to the highest bidder.
 - Collect the Funny Money (or beans) from each winner in exchange for the item auctioned.
 - Note the final selling price of each item.
10. Display Slide 7, record the items and their prices in the first round in the appropriate columns. Calculate the total spent on the three items in Round 1.
11. Explain that you will conduct a second auction round as follows:
- You will auction three items identical to the ones in Round 1.
 - You will distribute additional money.
 - If anyone has money left from Round 1, he or she may use that money in this round.
 - The “new” money is equal in value to the old money; that is, each funny money or bean is worth one dollar.
 - This is the final auction.
12. Distribute in random amounts approximately double the amount of money distributed in Round 1 (perhaps 6 to 12 bills [or beans] each).
13. 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.
14. Complete the Round 2 column on Slide 7. 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 and total spending 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.*)
 - Assuming the quantity of goods and services remains constant, how would you summarize the relationship between spending and prices? (*More spending means higher prices. When spending goes up, prices go up. The level of spending and the prices of goods and services are directly related.*)
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15. Display Slide 8 and 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.
 - In our activity, there were only three goods and the prices of all three goods increased (most likely).
 - However, 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. So, the increase in some prices is offset by decreases in others and the economy doesn't experience inflation.
 - You might hear economists say inflation occurs when "too much spending is chasing too few goods." This is likely to occur when the spending increases at a faster rate than the supply of goods and services produced in the economy.
 - In the activity, there were no more goods and services available in Round 2, but there was more money and as a result more spending.
 - Money is important because it provides the opportunity to spend, but ultimately it is spending that drives economic activity, and potentially, inflation.
16. Display Slide 9 to pose the same question posed at the start of the lesson. If more money results in more spending, and more spending can cause economic growth, why shouldn't the government continuously add money to the economy? (*This time students should respond that more money without more production of goods and services increases spending and drives prices up, which can lead to inflation.*)

Closure

17. Display Slide 10, reveal one question at a time to review the key content of the lesson.
- What is money? (*Anything widely accepted in exchange for goods and services.*)
 - What is fiat money? (*Money that has no intrinsic value or representational value.*)
 - Why is money useful? (*Money makes it easier for people to buy goods and services. 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.*)
 - For an economy to experience inflation, do all prices in the economy have to increase? (*No, inflation is an increase in the average price level. Some prices may remain the same or even decrease.*)
 - If the price of a few goods increase, does that mean the economy is experiencing inflation? (*No, inflation is an increase in the average price level. If the price of a few goods increase, it doesn't mean there's inflation.*)
 - What is the relationship between money, spending and inflation? (*Inflation is caused when spending increases at a faster rate than the supply of goods and services produced in the economy. More money results in more spending and if there is no additional production in the economy, inflation will occur.*)

Assessment

18. Distribute a copy of *Handout 2: Assessment* to each student. Allow time for students to complete the handout. Review student work using the Teaching About Money, Spending, and Inflation Using Classroom Inflation Auction Handout and Assessment Answer Key.



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 4, Grade 8**

1. Inflation reduces the value of money.

- **Benchmarks: Grade 5, Grade 12**

1. In the long run, inflation results from increases in a nation's money supply that exceed increases in its output of goods and services.

NOTE: The most recent version (2010) of the Voluntary National Content Standards does not reflect the current relationship between money, spending, and inflation.