
Getting hands-on with inflation

Alex Symonds, RBA Teacher Immersion Event 2022

Overview: Practical strategies for teaching inflation.

Ideas

- You're on the RBA Board
- Distinguishing between types of inflation
- 2022 overview

**Past HSC questions (interspersed)

You're on the RBA Board.

What would you do?

The situation

The CPI, in yearly terms, has risen by the following amounts:

- 3.3% through the year to the March quarter
- 3.6% through the year to the June quarter
- 3.5% through the year to the September quarter

The tasks

- What do we know?
 - What do we need to know?
-

What would you do?

The situation

Yes, the CPI, in yearly terms, is sitting outside of the RBA's target band.

Does this mean the cash rate should rise?

The thinking

- What is the cause of inflation?
 - How serious is this cause?
 - What will a shift in monetary policy do to this cause and the economy as a whole?
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In 2011, bananas suddenly became a luxury fruit when Cyclone Yasi destroyed more than 80 per cent of Australia's banana industry. It was estimated that about \$350 million of bananas were destroyed, with growers in Tully, Cardwell and Innisfail copping the bulk of the damage. 4 Feb 2021



<https://www.queenslandcountrylife.com.au> > Cropping

Tully Banana growers remember Cyclone Yasi 10 years on

Quarter (2011)	% increase in fruit prices (qtrly)
March	14.5%
June	26.9%
October	-1.2%

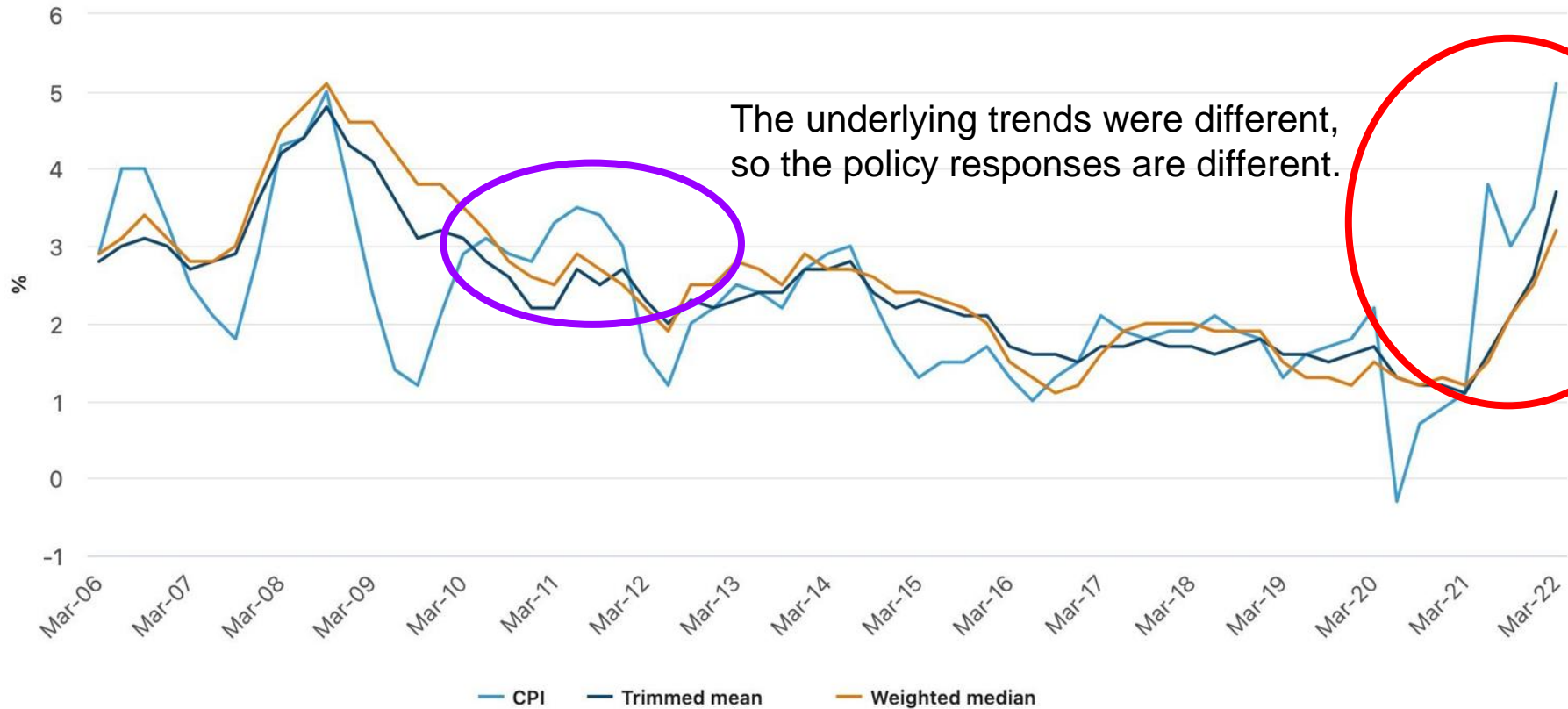
What would you do?

With inflation:

- Is it headline or underlying? (CPI ex volatiles)
- Should the RBA be concerned or *should it look through it?*
- What will be the consequences of using the “blunt tool” to reduce price pressures?

Contractionary MP is quite powerful...but can it make crops grow?

CPI, Trimmed mean and Weighted median, Annual movement (%)



Source: Australian Bureau of Statistics, Consumer Price Index, Australia March 2022

Exam break.

Question 21 (10 marks)

The table shows Consumer Price Index (CPI) data by expenditure group for an economy.

<i>Expenditure group</i>	<i>Weighting factor in CPI (%)</i>	<i>CPI by expenditure group</i>
Food	15	120
Housing	20	110
Health	5	150

(a) Which expenditure group contributed most to the inflation rate?

1

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Consumer Price Index (CPI) data by expenditure group for an

Expenditure group	Weighting factor in CPI (%)	CPI by expenditure group (vs 100)
Food	15 0.15	120 0.20
Housing	20 0.20	110 0.10
Health	5 0.05	150 0.50

$\frac{120 - 100}{100} = 20\%$
 $0.15 \times 0.20 = 0.03$
 $0.20 \times 0.10 = 0.02$
 $0.05 \times 0.50 = 0.025$

Expenditure group contributed most to the inflation rate?

1

FOOD.

Types of inflation

1. Name the type of inflation this article relates to.
2. Talk about how the factors in the article lead to rising prices across the economy.

We're reaching out with an important update on your **Dinnerly** subscription

Hi Alexander,

We've got an important update to share – starting from 04/05/2022, the pricing structure of our subscription plans and the price of our delivery fee will change.

Why the change?

You will have noticed the impacts of inflation this year, and unfortunately we are not immune to these. Our operating costs of fuel, transport, wages and of course ingredients have significantly increased. While the government has offered temporary relief, the combination and depth of these factors means we must pass on a modest price increase to our customers.

What these changes mean for you

Based on your plan of 3 meals per week, you currently pay \$7.25 per portion. From 04/05/2022, this will increase to \$7.99 per portion. **This means your total weekly box price will change from \$53.49 to \$58.43.** This includes a shipping fee change from \$9.99 per order to \$10.49 per order.

Recipients of the **\$250 one-off payment** flagged in the 2022 Budget will likely see the single lump sum arrive in their bank accounts this week.

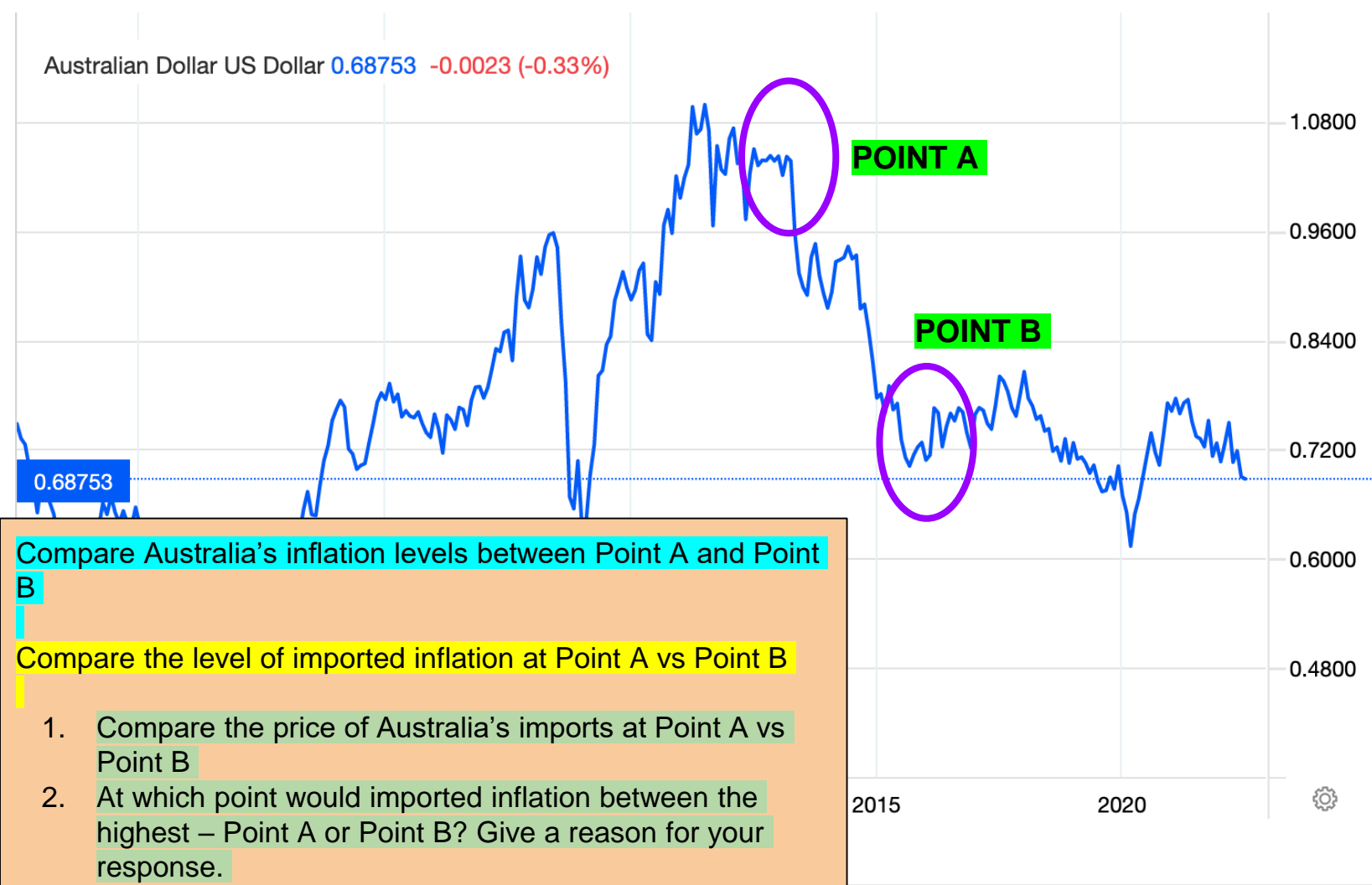
Services Australia **announced** on Tuesday that it had started paying eligible Australians the one-off payments.

Anyone receiving a welfare payment, including pensioners, veterans and concession card holders, will get an automatic \$250 payment starting from Wednesday 27 April. All payments are expected to be made by the end of the week.

Source: Yahoo! News

1. Name the type of inflation this article relates to.
2. Talk about how the factors in the article lead to rising prices across the economy.

Australian Dollar US Dollar 0.68753 -0.0023 (-0.33%)



Compare Australia's inflation levels between Point A and Point B

Compare the level of imported inflation at Point A vs Point B

1. Compare the price of Australia's imports at Point A vs Point B
2. At which point would imported inflation be the highest – Point A or Point B? Give a reason for your response.

Exam break

10 The table shows hypothetical data for the Australian economy over a two-year period.

	<i>Year 1</i>	<i>Year 2</i>
Consumer price index (CPI)	100	103
Employed persons ('000)	1800	2000
Unemployed persons ('000)	200	125
Population ('000)	2008	2095

Which row of the table below best accounts for the changes in CPI and unemployment rate from Year 1 to Year 2?

	<i>Reason for change in CPI</i>	<i>Reason for change in unemployment rate</i>
A.	Reduction in the cash rate	Removal of government initiatives for education and training
B.	Appreciation of the Australian dollar	Increase in domestic investment
C.	Increase in import tariffs	Global economic downturn
D.	Increase in consumer confidence	An appreciation in the currency of a major trading partner

Just focus on the “Reasons for change in CPI” column.

- Which would be the possible answers? Why?
- Which would be the incorrect answers? Why?

2022 overview

	Dec Qtr 2021 to Mar Qtr 2022	Mar Qtr 2021 to Mar Qtr 2022
	% change	% change
All groups CPI	2.1	5.1
Food and non-alcoholic beverages	2.8	4.3
Alcohol and tobacco	1.1	1.8
Clothing and footwear	-0.6	-1.5
Housing	2.7	6.7
Furnishings, household equipment and services	1.1	4.9
Health	2.3	3.5
Transport	4.2	13.7
Communication	0.3	-0.8
Recreation and culture	0.6	3.0
Education	4.5	4.7
Insurance and financial services	0.5	2.7

Price growth recorded across all grocery products

Price rises were seen across all food and non-food grocery products in the March quarter, reflecting a range of price pressures including transport costs, supply chain disruptions and increased input costs.

Date	Consumer price index		Other consumer price measures	
	All groups	Excluding volatile items	Weighted median	Trimmed mean
2021/2022				
Sep	3.0	2.5	2.1	2.1
Dec	3.5	2.6	2.5	2.6
Mar	5.1	4.0	3.2	3.7

Source: RBA

**Keep the
conversation going**

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