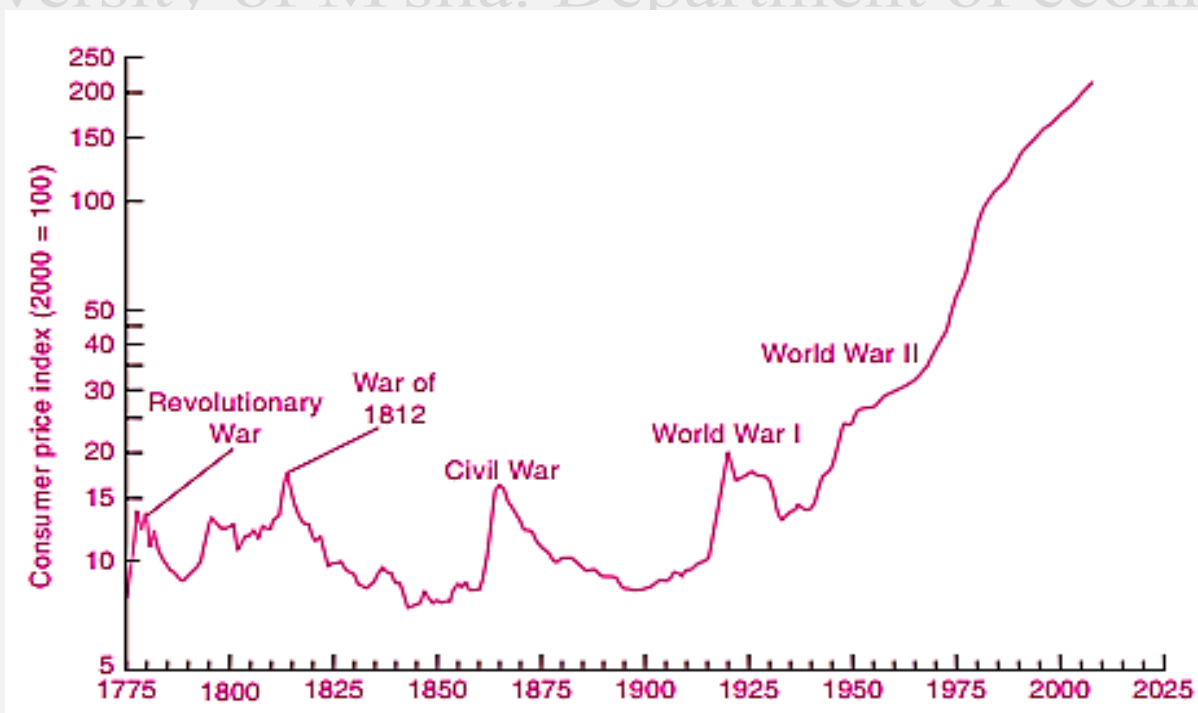


Lecture 02: Inflation

APPENDIX: THE HISTORY OF INFLATION

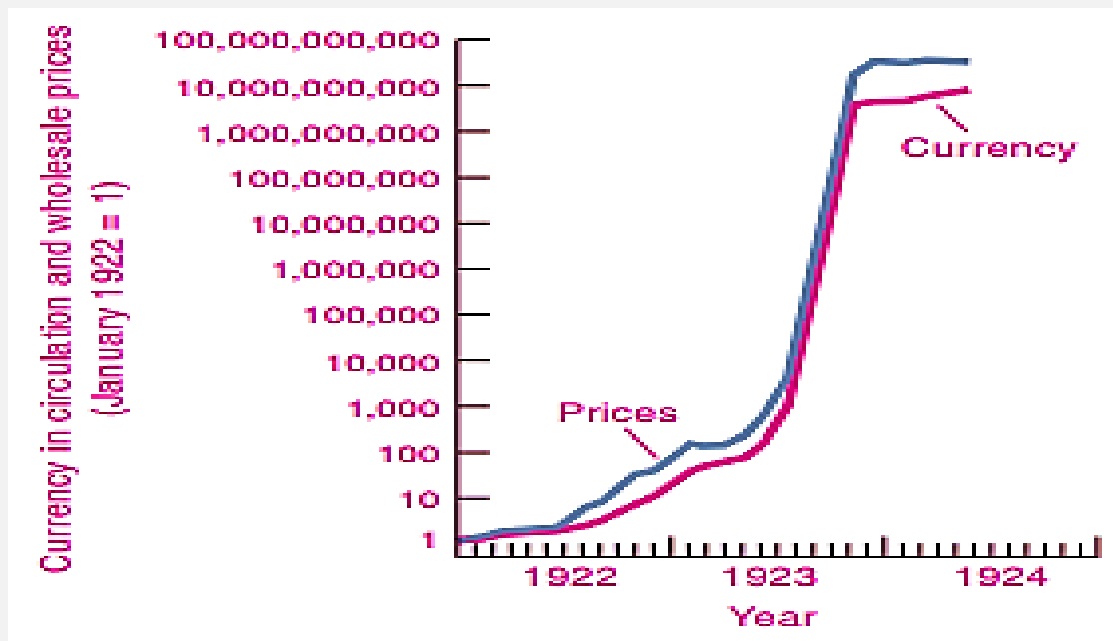
Figure 30-2 focuses on the behavior of consumer prices in the United States since the Revolutionary War. Until World War II, the United States was generally on a combination of gold and silver standards, and the pattern of price changes was regular: Prices would soar during wartime and then fall back during the postwar slump. But the pattern changed dramatically after World War II. Prices and wages now travel on a one-way street that goes only upward. They rise rapidly in periods of economic expansion and slow down in periods of slack.

Figure 01: Consumer Prices in the United States, 1776 – 2008



In the early 1920s, Germany could not raise enough taxes, so it used the monetary printing press to pay the government's bills. The stock of currency rose astronomically from January 1922 to December 1923, and prices spiraled upward as people frantically tried to spend their money before it lost all value.

Figure 02: The relationship between money and inflation



References:

- PAUL A. SAMUELSON and WILLIAM D. NORDHAUS (2010). *ECONOMICS*. 19th edition. McGraw-Hill Companies, Inc. New York. USA