

MSU Extension Publication Archive

Archive copy of publication, do not use for current recommendations. Up-to-date information about many topics can be obtained from your local Extension office.

Making Ends Meet: What's Your Inflation IQ?

Michigan State University

Cooperative Extension Service

Irene Hathaway, Extension Specialist, Family Resource Management

4 pages

The PDF file was provided courtesy of the Michigan State University Library

Scroll down to view the publication.

@making ends meet

FAMILY LIVING EDUCATION • MICHIGAN STATE UNIVERSITY

COOPERATIVE
EXTENSION
SERVICE

EXTENSION BULLETIN E-1365



What's Your Inflation IQ?

With or without double-digit inflation, making ends meet can be a real challenge for the family. This newsletter is the first of six designed to help you meet that challenge. In it, we're going to give you a chance to test yourself to see what you know about inflation. It's strictly for fun--you grade yourself. (Turn the page for the answers.)

1. The last time average consumer prices actually declined was: (a) 1970 (b) 1963 (c) 1954 (d) 1948.
2. Between 1967 and 1979, the cost of living more than doubled. (a) True (b) False.
3. The same forces that push prices up also drive wages up. (a) True (b) False.
4. Consumers consistently report that prices they pay go up faster than incomes. But, the truth is, however, many wage earners are as well or better off now than 10 years ago. (a) True (b) False.
5. In many cases, a simple doubling of income since 1967 has not kept up with inflation because: (a) prices have tripled (b) income taxes take a bigger bite (c) Social Security taxes have increased several times (d) b & c.
6. Consumer expenditures usually divide into: goods and services. Over the past 5 years which has increased in cost faster? (a) goods (b) services.
7. The following have increased in price over the past 5 years. Rank them from the largest to smallest increase. (a) food (b) gas (c) home ownership, (d) oil, coal and bottled gas (e) clothing.
8. Some costs have actually declined since 1970. Pick the one which has not decreased. (a) pocket calculators, (b) long distance phone calls, (c) portable black and white TVs (d) restaurant meals.
9. In spite of rising food prices, the cost of food has not increased as fast as the overall Consumer Price Index over the past 5 years. (a) True (b) False.
10. How hard inflation hits depends in part on your age, your job, what you buy, where you live, what stage your family is in. (a) True (b) False.
11. Who suffers most from inflation? (a) retirees (b) middle-aged parents with teen-aged children (c) young families.
12. Which of the following have been losers in this time of inflation? (a) statement savings accounts at banks (b) home ownership (c) stocks and bonds (d) farm land.
13. How have consumers tried to beat inflation? (a) increasing savings (b) holding back on spending (c) buying more on credit.
14. Some experts believe that the most serious impact of inflation is not economic but psychological. (a) True (b) False.

ANSWERS *****

1. (c) The last time consumer prices actually declined was 1954. Inflation has been nibbling away at our purchasing power for 25 years.
- * 2. (a) Between 1967 and 1979, prices more than doubled. Measured by the Consumer Price Index (CPI), the cost of consumer purchases increased by 129.9%. The CPI measures price changes for food, housing, clothing, health care, transportation and recreation. It is based on more than 90,000 prices collected monthly by the Bureau of Labor Statistics. Whether the CPI reflects what's happened to you depends on whether you spend like the "average" citizen. The CPI categories are weighted according to their importance in the average family budget, based on a study of consumer expenditures. If your family differs from the average--larger, for instance--if you live in the country rather than city, your employer pays your health care insurance, you don't own a car, or differ in some other significant way, the CPI does not reflect your situation. (To see how your spending compares with the CPI, see the chart on page 3.)
3. (a) The same forces that push prices up also drive wages up. However, wage earners tend to see wages as their reward for doing a good job, and inflation as imposed by outside forces and threatening some of the reward.
- * 4. (a) Most wage earners are as well or better off than 10 years ago, especially workers with cost-of-living escalator clauses in union contracts. On the whole, wages and salaries have kept up, but individually all workers have not shared in the gain. Some occupations are losing ground. Incomes are higher for federal civil servants, engineers, lawyers, accountants, librarians and university professors, but they have less purchasing power after taxes than 10 years ago.
- * 5. (d) Doubling income since 1967 has not kept up with inflation because income taxes take more, and Social Security taxes have increased several times. Inflated wages have pushed many families into higher income tax brackets. For some, part of the bigger tax bite comes from the two incomes it takes to make ends meet--more income, more income tax. Both the percentage of wages withheld and the maximum earnings taxed by Social Security have increased more than once. However, Social Security retirement benefits have gone up with the CPI, so retirees get some protection against inflation.
- * 6. In general, services have been rising in cost faster than goods, due largely to skyrocketing medical costs. Over the past year or so, however, most of the large price hikes are in commodities, particularly energy. You can expect the cost of services to jump upward in the near future.
- * 7. b, d, c, a, e. In the last five years gasoline has increased the most, followed by fuel oil, coal and bottled gas, home ownership, food and clothing. Part of the price increase can be traced to the rising cost of energy. It takes energy to produce and process food and raw materials and transport finished products, to heat and cool stores, restaurants, hospitals, etc. Service industries pay more for fuel to get where their work is. The consumer, of course, bears the burden.
- * 8. (d) Restaurant meals have increased in cost, but pocket calculators, long distance calls and black and white portable TVs are actually cheaper today than 10 years ago, thanks largely to new technology.
- * 9. (a) Food has not gone up as fast as the overall CPI for the last 5 years. Food prices rose faster than the overall CPI in 1975, 1977 and 1978, but rose slower in 1976 and 1979.
- * 10. (a) Age, job, what you buy, where you live and life stage of your family determine how hard inflation hits you. If you bought a house 10 years ago, the inflated cost of new homes and mortgages is not costing you anything--unless you change homes. But, in that case, you may come out ahead, thanks to the increased value of your present home. On the other hand, your home

is costing much more to heat and maintain. Property taxes are higher, too. Whenever you drive your car, you'll feel the pinch of rising gas prices. If you're a full- or part-time farmer, your production costs have skyrocketed without a corresponding hike in the prices you get.

*11. (c) Opinions vary on who suffers most, but many experts feel it's families with young children. They're usually buying a home and other things that have gone up in price the most. If one parent stays home to care for the children, they're trying to get by on one income. Retirees on pensions without built-in cost-of-living increases, and those living on income from stocks or other low-return investments may also be hard hit. Families with middle-aged parents and older children may be the least affected if they are making fairly good wages and fewer cost-inflated purchases. The exception would be parents of teen-agers looking toward college since costs of room, board and tuition have increased since 1970.

*12. (a & c) Stocks, bonds, and bank savings accounts tend to give returns well below the annual rate of inflation. The interest or dividends they pay do not make up for the loss of purchasing power that inflation causes. In recent years, home ownership has been a winner for a number of reasons. The market value of the average home has been increasing much faster than the annual inflation rate. (Since 1954, the median new homeprice has risen from just over \$12,000 to more than \$62,000.) Older, fixed-interest mortgages are now being paid off in cheaper dollars. Mortgage interest and property taxes can be deducted on itemized tax returns.

*13. (c) Many consumers have tried to hedge against inflation by buying a lot of things on credit. They reason that prices will just continue to go up, so why not buy now and pay later with cheaper dollars?

*14. (a) The psychological impact of inflation and money squeeze may be more serious than the economic

effects. Many people's paychecks are the fattest they've ever been, but people often say they feel they have to bring home more and more money just to stay where they are financially. Over the last few years on paper, they are keeping up or maybe gaining a little ground, but they feel they are losing because they see their dreams and expectations being shot down. This year many are actually losing ground. The reality that the economic pie can not keep growing indefinitely is a fact of life that many people may find hard to deal with. Americans have gotten used to the idea that every year is going to be better than the last and each generation will have a better chance at "the good life." As they see this dream evaporating, some people feel frustrated, cheated, angry, bitter, discouraged and powerless.

Consumers are not totally at the mercy of uncontrollable forces, however. Ways to stretch shrinking dollars include sharpening shopping skills, reducing expenditures, increasing home production of food and other goods and services, joining formal and informal cooperatives or bartering groups, and taking on extra jobs or setting up sideline businesses to increase income. These topics will be covered in future issues of Making Ends Meet.

Consumer Price Index

To see how your family's spending compares with the way the CPI is figured, check the figures for each category below:

Food	18.1%
Housing (total)	44.2%
Shelter	29.8%
Fuel, utilities	6.3%
Furnishings	8.1%
and operation	
Clothing and upkeep	5.4%
Transportation	17.8%
Medical Care	4.9%
Entertainment	3.9%
Other Goods and Services	4.2%
Tobacco	1.1%
Personal care	1.7%
Education	1.4%
Alcoholic beverages	1.0%

YOUR PERSONAL INFLATION CHECKUP

By now, you probably have a pretty good idea of what inflation is doing to Americans in general. Where do you stand? Are you keeping up or falling behind? Check the chart below to find out.

- * Which of these have gone up, down, or stayed the same over the last 5 years?-----

Housing (rent or mortgage)....

Utilities, fuel.....

Food (at home and away).....

Transportation.....

Clothing.....

Medical Care.....

- * Has your total family income from all sources increased or decreased in the past 5 years? (To figure the percent of change, use figures from past income tax returns. If your income has increased by at least 50%, and you haven't greatly increased your financial obligations, you have at least held your ground. If income increased less than 50% or decreased and your expenses have not decreased by as much, you're losing ground to inflation.)

- * Do you expect family income to go up, down or stay the same in the next few years?

- * How are you coping with your financial situation:

Cut expenditures?_____

Trade goods & services with others?_____

Seek ways to increase income?_____

Increase doing-it-yourself?_____

Sharpen shopping skills?_____

Just for fun, hold onto this page. In six months, after you've received your last edition of Making Ends Meet, look at that final list again, and see if you're doing anything different to help make ends meet.

Irene Hathaway

Irene Hathaway
Extension Specialist
Family Resource Management

Up	Down	Same



COOPERATIVE EXTENSION SERVICE
UNITED STATES DEPARTMENT OF AGRICULTURE
MICHIGAN STATE UNIVERSITY
EAST LANSING, MICHIGAN 48824



AN EQUAL OPPORTUNITY EMPLOYER

POSTAGE
AND FEES PAID
U.S. DEPARTMENT
OF AGRICULTURE
Agr 101



OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, \$300