

The Economic Goal of Price Stability

Sarah Gunn, Federal Reserve Bank of Richmond

Kevin Woodcox, Federal Reserve Bank of Richmond



Economic Decision 1

Goal

You want to buy a new gaming system that costs \$300. You have already saved \$200.

How do you achieve your goal? Choose one of the following:

- Save up the last \$100 and buy the gaming system in six months.
- Borrow the last \$100, buy the gaming system now, and pay back the loan over the next six months, with interest.

Inflation Flip

Flip your group's coin.

- Heads: Prices change unexpectedly.
- Tails: Prices remain stable.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Results of Economic Decision 1

Goal

You want to buy a new gaming system that costs \$300. You have already saved \$200.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Choice	Inflation flip	Points
Save up the other \$100	Heads (unexpected inflation)	-1
	Tails (price stability)	0
Borrow the other \$100	Heads (unexpected inflation)	+1
	Tails (price stability)	0

Economic Decision 2

Goal

You plan to go to college after you graduate and have determined that your yearly cost will be \$8,000.

How do you achieve your goal? Choose one of the following:

- Take out a student loan with fixed-rate interest.
- Take out a student loan with variable-rate interest.

Inflation flip

Flip your group's coin.

- Heads: Prices change unexpectedly.
- Tails: Prices remain stable.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Results of Economic Decision 2

Goal

You plan to go to college after you graduate and have determined that your yearly cost will be \$8,000.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Choice	Inflation flip	Points
Fixed-rate loan	Heads (unexpected inflation)	+1
	Tails (price stability)	0
Variable-rate loan	Heads (unexpected inflation)	0
	Tails (price stability)	0

Economic Decision 3

Goal

You need to earn money for homecoming. Your parent or guardian says they will pay you either a guaranteed \$10 weekly allowance for helping out around the house or a couple of dollars for each weekly chore, with you deciding how many chores to do.

How do you achieve your goal? Choose one of the following:

- A guaranteed \$10 weekly allowance
- A variable allowance, depending on chores completed

Inflation flip

Flip your group's coin.

- Heads: Prices change unexpectedly.
- Tails: Prices remain stable.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Results of Economic Decision 3

Goal

You need to earn money for homecoming and can earn a guaranteed \$10 weekly allowance or a variable allowance, depending on chores completed.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Choice	Inflation flip	Points
A guaranteed \$10 weekly allowance	Heads (unexpected inflation)	-1
	Tails (price stability)	0
A variable allowance	Heads (unexpected inflation)	0
	Tails (price stability)	0

Economic Decision 4

Goal

You need a ride to school every day, and your friend normally drives you. However, your friend blew out a tire and does not have enough money to replace it.

How do you achieve your goal? Choose one of the following:

- Loan your friend \$100 at 10 percent interest for the next 12 months.
- Spend the \$100 on yourself and ride the school bus.

Inflation flip

Flip your group's coin.

- Heads: Prices change unexpectedly.
- Tails: Prices remain stable.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Results of Economic Decision 4

Goal

You need a ride to school every day, and your friend normally drives you. However, your friend blew out a tire and does not have enough money to replace it.

Evaluate

Based on your choice, were you helped or hurt by the inflation flip?

Choice	Inflation flip	Points
Loan your friend \$100	Heads (unexpected inflation)	-1
	Tails (price stability)	0
Spend the \$100 on yourself	Heads (unexpected inflation)	+1
	Tails (price stability)	0