$$\text{Price}_{\text{gas}} = \text{Price}_{\text{apples}} = \$2$$

Cost of Basket

(1*$2)+(1*$2)= $4

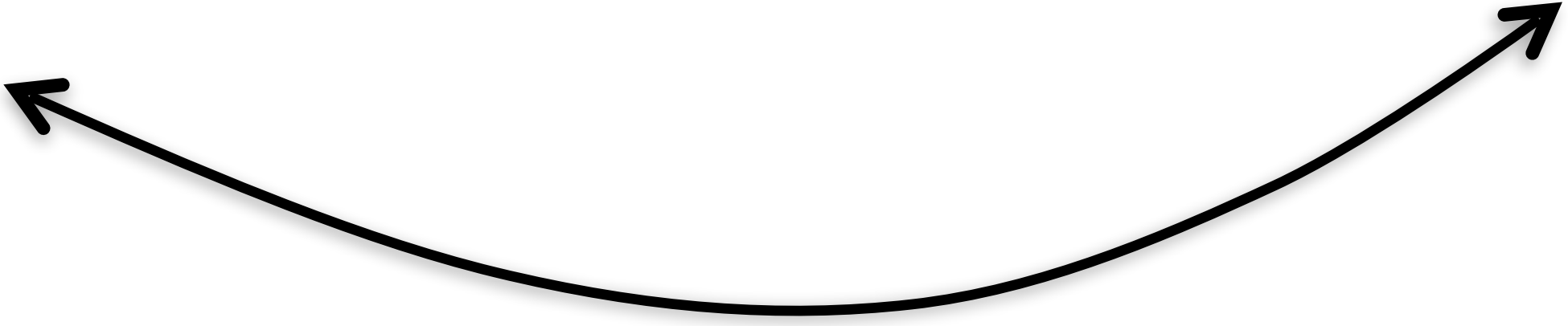
Cost of Basket

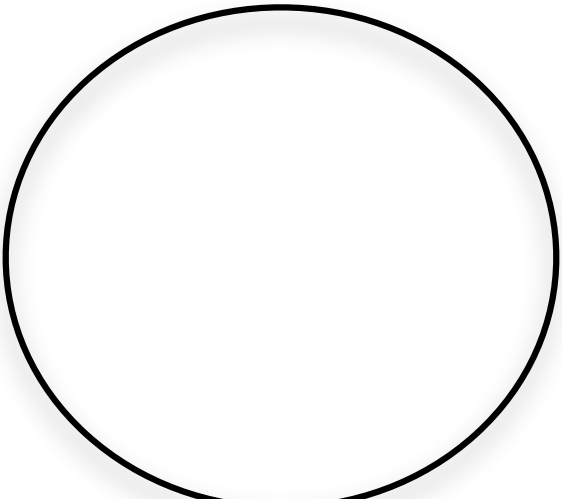
(1*$3)+(1*$1)= $4

1 gallon of gas cost 1 bag of apples

1 gallon of gas cost 3 bags of apples

Change in Relative Prices





Same

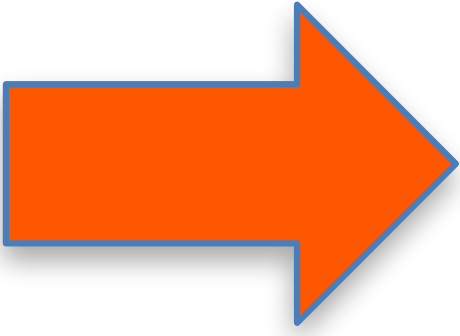
GASOLINE

GASOLINE

Zero Inflation

$1

Relative Prices:



$P_{gas} = 3$ $P_{apples} = 1$

Prices Change:

New Relative Prices:

3. Inflation is blamed for changes in relative prices

2

$3

$2

$2

Prices Change:

$P_{gas}=3$ $P_{apples}=1$

Cost of Basket

(1*$2)+(1*$2)= $4

Cost of Basket

(1*$3)+(1*$1)= $4

Zero Inflation

1 gallon of gas cost 1 bag of app

1 gallon of gas cost 3 bags of ap

Change in Relative Prices

The True Costs of Inflation