

Price_{gas}= Price_{apples}= \$2

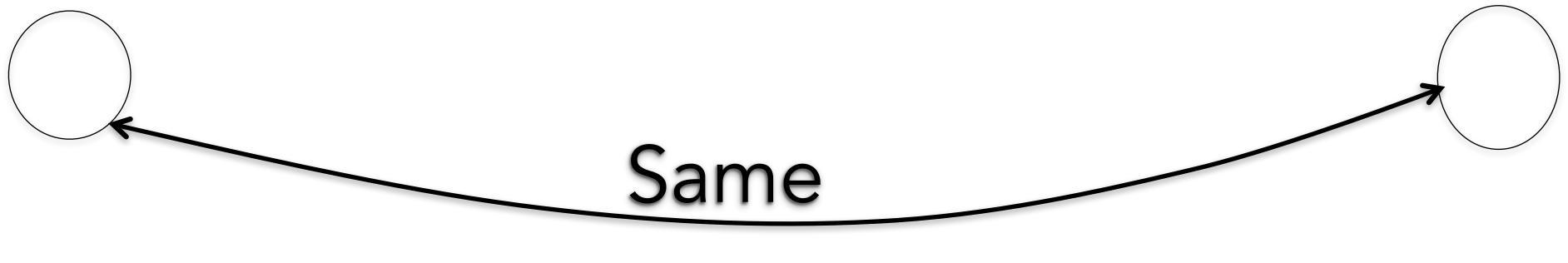
apples

Prices Change



Cost of Basket $(1_x$2)+(1_x$2)=$4$

Cost of Basket $(1_x$3)+(1_x$1)=$4$



Zero Inflation

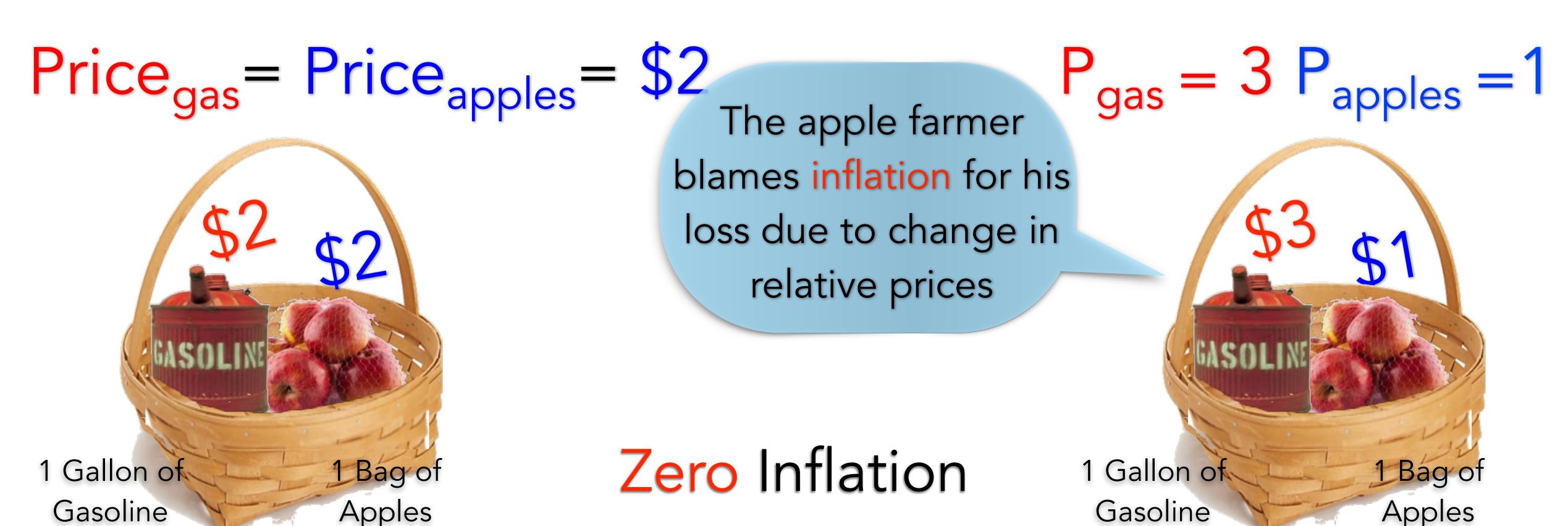
1 gallon of gas costs now 3 bags of apples

Relative Prices change:

Mistake # 2: Confusing Inflation with changes in Relative Prices

The apple farmer blames inflation for his loss due to change in relative prices

Mistake # 2: Confusing Inflation with changes in Relative Prices



Relative Prices change:

1 gallon of gas costs now 3 bags of apples

Why is inflation bad?