

Law of Supply and Demand: When the supply of something goes up, the price goes down. When the demand for something goes up, the price goes up

Inflation: An increase in the amount of money. This lowers the value of money, and subsequently raises prices.

A. Inflation causes rising prices.

Give examples of the law of supply and demand.

A man wants to sell his car. In a year where a lot of people want this type of car and money is good, he will get a lot of customers and can raise his prices. But if people don't want it, then he has to lower the price.

A garage has stocked a lot of parts that it can then sell cheaply. But by the second week, most of the pieces are gone and the garage is forced to raise its prices.

5. In 1995, the value of the US dollar as compared to the Euro was 0.749688 EUR, although as in most years, it rose and fell. However, in 2008, the exchange rate fell dramatically in the middle months, falling to almost 0.634813 EUR in April, but then rising back up again by December. Go to: <http://www.x-rates.com/d/EUR/USD/hist2008.html> to check it out!

#### 6.1950s Food Prices

Apples **39 cents for 2 pounds** Florida 1952

Bananas **27 cents for 2 pounds** Ohio 1957

#### 2009 Food Prices

Red Delicious Apples .99 per pound

Bananas .99 per pound

These prices have risen because of inflation. As the amount of money increases, it drops in value and prices must be raised to compensate.

8. 1926: 5 pounds of flour costs 30 cents.

1945: 5 pounds of flour costs 32.1 cents.

1988: 5 pounds of flour costs \$1.08.

2009: 5 pounds of flour costs \$2.32

9. Supply of money in circulation in 1920: \$23.7 billion.

Supply of money in circulation in 1945: \$94.1 billion.

Supply of money in circulation in 2008: \$7.684 trillion