

Is the wage/price spiral a cause of inflation or caused by inflation?

It is caused by inflation, as inflation increases the amount of money in the supply, and then prices and worker's wages go up.

True or false: Large increases in the money supply are always followed by increases in wages and prices.

True.

True or false: Large decreases in the money supply are always followed by a fall in wages and prices.

True.

Is there an exception to the question above?

Yes. If unions step in and try to keep wages constant after a large decrease in the money supply, companies will have to start firing workers to keep in business.

True or False: With a few exceptions, there has never been a case where wages and prices rose rapidly without someone creating a lot of money.

True.

6

My parents try to save all the extra money they can (by not spending so much of it and by saving what they get and don't have to spend), and try to invest it to increase the amount of money. If I needed orthodontic treatment (and I do), then they would take the money out of their savings, viewing it as an investment in my mouth. That way, we can have extra, saved money to pay for things we need and don't go into debt.

7

If I was offered a job where I would be paid \$2.00 an hour to babysit 6 kids, I would first weigh all the factors before taking the job. I would see whether anyone else had offered me a more attractive job, with fewer children, or if there were more profitable things I could do with my time. If everybody found things that were more worthwhile, then the parents would have to stay home with their kids. They wouldn't go out to the movies or to a restaurant if they couldn't find someone to take their kids. And you wouldn't have that \$2.00. Therefore, this type of government policy would stifle the economy instead of stimulating it.

8

If I was the landlord of an apartment building, and the government said I couldn't raise my rent, I would be stuck. I would be getting the same amount of money, but inflation would make me poorer and poorer. Eventually, I wouldn't have enough money to pay for repairs on my building, and I wouldn't be able to raise the rent. I would try to sell the building, but no one else would want to buy it, as they wouldn't be able to raise the rent either. In the end, the building would either fall apart, I would go

bankrupt and lose it, or I would be forced to sell it at a ridiculously low price.

9

Under a communist rule, each person would be given exactly the same amount of responsibility, regardless of how educated or good at a job they were. This is not a good system, as people have varying levels of competence, and some may be ready for more complex jobs and more responsibility than others. That is why the communist system doesn't work. People should be given equal opportunity, but as in the example of the older and younger child, more should be expected of them as they get older.