## Inflation Auction

To help students understand how inflation occurs, conduct an auction of something students would like to buy. This might be homework passes, a food or drink item, or even extra credit points. You will need enough items to play 3 rounds.

### Set Up

* Give every student $1 in ―money‖ as they enter the room. (You can design your own dollars and give them a unique name. e.g. Bonus Bucks or Dithers Dollars)
* Have a copy of chart below prepared on the board prior to students entering the class. (Substitute the name of the item you are auctioning for *Good*.)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Price of [*Good* 1]** | **Price of [*Good* 2]** | **Average Price of [*Good*]** |
| Year 1 |  |  |  |
| Year 2 |  |  |  |
| Year 3 |  |  |  |

### Round 1

* Tell students that they now live in the Land of the Lucky and that they will have an opportunity to buy some goods that you have for sale.
* Everyone’s income is 1 Bonus Buck.
* Display two items that you will auction off to the class. Tell students each item will go to the highest bidder and open the auction. (Allow students to pool their money to bid as it will not impact the lesson but don’t suggest it.)
* Collect the payment and award the items to the highest bidders.
* Write in the price paid for each item in Year 1 and then calculate the average price.

### Round 2

* Display two more items.
* Tell the students that their nominal income is rising. Their income will now be 5 Bonus Bucks. Pass out the new income without picking up the unspent bucks from the previous round. Conduct the auction and record the information in Year 2 of the chart.

### Debrief

* Ask students what happened to the price in year 2? *The price of the item went up.*
* Was the population better off in year 2 than in year 1? *Answers will vary but students should note that there were still only 2 goods to buy. When income rises but production stays the same, the price rises due to the shortage of goods. As a result, they weren’t any better off even with the raise. Students may point out that output usually doesn’t stay the same and that is fine.*

### Round 3

* Display four more items and tell the students they are getting another raise.
* Again, nominal income is rising and each student will get 10 Bonus Bucks. You may or may not let them know that this will be the last round.
* Pass out the new income as you did before without collecting any unspent bucks from the previous round.
* Conduct the auction and record the information in Year 3 of the chart (add information for the 2 additional items auctioned at this time.)

### Debrief

* Ask students what happened to the price in year 3 now that output has doubled? *The price of the items still went up.*
* Was the population better off in year 3 than in year 2? *Answers will vary but students should note that there were still not enough goods for everyone to buy and as a result the price went up and they weren’t any better off even with the raise.*
* Let them know that inflation impacts everyone and today they will explore how it is measured.