# The Inflation Tax

After reading the *Deseret News’* October 2012 article “When the U.S. creates lots of money, it's just like taxation” located at [http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-](http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-taxation.html?pg=all) [taxation.html?pg=all](http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-taxation.html?pg=all), answer the following questions.

## What is quantitative easing?

1. Why is quantitative easing different from normal expansionary policy?
2. Why is increasing the money supply like a tax?
3. Given what you know about inflation, is quantitative easing a good idea for the economy? Explain.

# The Inflation Tax Answer Key

After reading the *Deseret News’* October 2012 article “When the U.S. creates lots of money, it's just like taxation” located at [http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-](http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-taxation.html?pg=all) [taxation.html?pg=all](http://www.deseretnews.com/article/765611836/Creating-lots-of-money-is-just-like-taxation.html?pg=all), answer the following questions.

## What is quantitative easing?

*This easing is an attempt to stimulate the economy by increasing the supply of available money.*

1. Why is quantitative easing different from normal expansionary policy?

*In normal expansionary policy, the Fed buys U.S. Treasury securities on the bond market, but with quantitative easing, the FED buys other nontraditional financial assets.*

1. Why is increasing the money supply like a tax?

*Increasing the money supply is like a tax since it lowers the value of money so the government pays back the debt in money that is worth less.*

1. Given what you know about inflation, is quantitative easing a good idea for the economy? Explain.

*Answers will vary. Students may say that inflation is not a good idea for many individuals and firms in society. Inflation robs consumers of purchasing power and raises interest rates as financial institutions added inflation expectation to the nominal interest rate.*

**Worksheet 33.2: Venezuela’s Biggest Enemy**

After reading the Miami Herald’s February 2014 article “Andres Oppenheimer: Venezuela’s biggest enemy — hyperinflation” located at [http://interamericansecuritywatch.com/andres-](http://interamericansecuritywatch.com/andres-oppenheimer-venezuelas-biggest-enemy-hyperinflation/) [oppenheimer-venezuelas-biggest-enemy-hyperinflation/](http://interamericansecuritywatch.com/andres-oppenheimer-venezuelas-biggest-enemy-hyperinflation/), answer the following questions.

1. Why is hyperinflation Venezuela’s biggest enemy?
2. What does the article suggest the government do to stop the inflationary spiral?
3. How are government policies impacting businesses?
4. How are consumers reacting to government policies?

# Venezuela’s Biggest Enemy Answer Key

## After reading the *Miami Herald’s* February 2014 article “Andres Oppenheimer: Venezuela’s biggest enemy — hyperinflation” located at [http://interamericansecuritywatch.com/andres-](http://interamericansecuritywatch.com/andres-oppenheimer-venezuelas-biggest-enemy-hyperinflation/) [oppenheimer-venezuelas-biggest-enemy-hyperinflation/](http://interamericansecuritywatch.com/andres-oppenheimer-venezuelas-biggest-enemy-hyperinflation/), answer the following questions.

1. Why is hyperinflation Venezuela’s biggest enemy?

*Inflation reached 56% last year and without intervention will continue to rise even higher. People will not be able to afford even the basic necessities and the economy will descend into chaos.*

1. What does the article suggest the government do to stop the inflationary spiral?

*To stop the inflationary spiral, the Venezuelan government should reduce public spending to get the deficit under control, and take other market-friendly measures aimed at rebuilding trust in the local currency.*

1. How are government policies impacting businesses?

*There are growing shortages of consumer goods because merchants say they are being forced to sell goods at a loss.*

1. How are consumers reacting to government policies?

*Venezuelans are rushing to buy U.S. dollars in order to get rid of their increasingly worthless local currency.*