INFLATION A

Directions: Read the passage thoroughly before answering the questions. For some questions you must read several sentences beyond the question to determine the correct answer.

Passage 1

Inflation

Inflation is sometimes an indicator of a normal economy! At least, to a certain extent. According to the Harvard Business Review, "a little bit of inflation is typically harmless, if it's [1] widely expected." Inflation is the process through which prices for goods and services rise across the economy. Raising prices can be a stressor for working citizens, but ideally, the inflation rate is anticipated across the economy and wages will increase to account for increased prices.

If the economy isn't experiencing inflation, it is experiencing deflation, or, the [2] decreasing power of the dollar accompanied with lower prices. Unfortunately, deflation is often associated with periods of recession, which often lead to higher rates of unemployment. This occurs because companies can only sell goods and services at low prices, which means that companies may have to make hard decisions to support itself and employees who rely upon them. To avoid a condition of recession, the U.S. Federal Reserve aims for a 2% inflation rate each year.

What causes inflation in the first place? Inflation occur [3] when governments increase supplies of money. Inflation is a necessary factor in the growth of the economy, otherwise the amount of money would stay fixed, not allowing for growth in populations, resources, or demands. There are three main ways in which inflation manifests itself: demand-pull inflation, cost-push inflation, and built-in inflation.

Demand-pull inflation occurs when demand outpaces production capacity, or the supply. For example, during the COVID-19 pandemic, demand for physical goods (like Pelotons or Nintendo Switches) rose dramatically. When more people want goods than there are goods available, goods will go up in price.

1. A) NO CHANGE
   B) its
   C) its'
   D) i'ts

2. F) NO CHANGE
   G) deflation, or the
   H) deflation or the
   J) deflation or, the

3. A) NO CHANGE
   B) occurs
   C) occurring
   D) which occur

Cost-push inflation happens when production cost of goods increases. The cost of goods[4] rises across the board when the costs of fuel like gas and oil rise. For example[5]; if gas costs rise, companies must pay more money to ship their goods on trucks (Fernando). This means that when gas prices rise, even the prices of food goods like bananas rose[6] as well.

Built-in inflation takes place because consumers[7] anticipate that inflation will occur. This means that companies will increase wages and the prices of goods and services to keep up with the rate of inflation. When employees push employers to raise wages to keep up with the cost of living, the cost of production may be higher, meaning companies may need to raise the prices of products.

4. A) NO CHANGE
   B) They
   C) It
   D) These

5. F) NO CHANGE
   G) For example
   H) For example,
   J) For example:

6. A) NO CHANGE
   B) will rise
   C) risen
   D) rised

7. At this point, the writer wants to emphasize that built-in inflation is a process that occurs when all parties anticipate and account for the rate of inflation. Which word choice best reflects this emphasis?

   A) NO CHANGE
   B) citizens
   C) companies
   D) employees

Sources:
Fernando, Jason. (20 July 2023). What you need to know about the purchasing power of money and how it changes. https://www.investopedia.com/terms/i/inflation.asp
Frick, Walter. (23 December 2022). What causes inflation? https://hbr.org/2022/12/what-causes-inflation