

## INFLATION B

**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

[1]

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 widely expected.” Inflation is the process through <sup>1</sup>which prices for goods and services rise across the economy. Raising prices as it can be a stressor for working citizens, but ideally, <sup>2</sup>the inflation rate is anticipated across the economy and wages will increase to account for increased prices.

[2]

Demand-pull inflation occurs when demand outpaces production capacity, or the supply. 3 For example, during the COVID-19 pandemic, demand for physical goods (like Pelotons or Nintendo Switches) rose dramatically. 4 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) if it  
H) when it  
J) DELETE the underlined portion.
3. The writer is considering deleting the preceding sentence. Should the sentence be kept or deleted?  
A) Kept, because it describes a key term used in this paragraph.  
B) Kept, because it is good evidence for this paragraph.  
C) Deleted, because it distracts the reader from the main point of the paragraph.  
D) Deleted, because it provides irrelevant information.
4. At this point, the writer is considering adding the following true statement:  
In these cases, demand outpaced the rate of production, resulting in price increases of these products during these high demand times. Should the writer make this addition here?  
F) Yes, because it emphasizes the causes of demand-pull inflation.  
G) Yes, because it reveals that demand-pull inflation is the most serious type of inflation.  
H) No, because it contradicts a point later in the passage.  
J) No, because the information that prices increase when goods are scarce is already reflected in the passage.

[3]

What causes inflation in the first place? Inflation occur<sup>5</sup> 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.

[4]

If the economy isn't experiencing inflation, it is experiencing deflation, or, the<sup>6</sup> 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<sup>7</sup> 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.

[5]

Cost-push inflation happens when the production cost of goods increases.<sup>8</sup> The cost of goods<sup>9</sup> rises across the board when the costs of fuel like gas and oil rise. For<sup>10</sup> example; 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<sup>11</sup> as well.

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

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

7. A) NO CHANGE  
B) That  
C) These  
D) Those

8. F) NO CHANGE  
G) has happened when the production of goods increases  
H) will happen when the production cost of goods increased  
J) , when the production cost of goods increases, happens

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

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

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

[6]

Built-in inflation takes place because consumers anticipate that inflation will occur. This <sup>12</sup>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, companies may need to rise the <sup>13</sup>cost of production which means employees may make product cost higher.

12. 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?
- F) NO CHANGE  
G) citizens  
H) companies  
J) employees
13. A) NO CHANGE  
B) the company will raise prices and the production.  
C) the cost of production may be higher, meaning companies may need to raise the prices of products.  
D) DELETE the underlined portion.

Questions 14 and 15 ask about the preceding passage as a whole.

14. Suppose the writer's primary purpose had been to inform readers about the process of inflation. Does this essay accomplish that purpose?
- F) Yes, because it offers an overview of many kinds of inflation and a large picture of inflation as a whole.  
G) Yes, because it provides many nations' perspectives on inflation, which gives a well-rounded depiction of inflation.  
H) No, because it does not connect inflation to any specific examples that readers can latch on to.  
J) No, because it focuses on the effects of inflation on businesses but does not explain why inflation occurs.
15. For the sake of the logic and coherence of the essay, Paragraph 4 should be placed:
- A) where it is now.  
B) before Paragraph 1.  
C) before Paragraph 3.  
D) after Paragraph 5.

#### 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>