

IO3: Financial Literacy Training for Parents

Handout 1.6

Financial Vocabulary

Activity MM1.6: How does inflation (also called *cost of living*) affect our money?

Activity sheet M1.4: Time Travel, Inflation Style

What does inflation really mean? In the chart below enter one of these amounts as a 1920 price €/£ 1 or €/£ 10 or €/£200 and use the calculators to work out the equivalent costs today. Enter your findings in the chart below.

Use the Inflation Calculator at <https://www.inflationtool.com/euro> for euros, or <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator> for pounds

The calculators show you the equivalent amount of money you would need to have to buy the same goods now. For example, something that cost you £10 in 1920 would cost you £312.07 in 1921. This increase in prices is known as inflation.

Do you know what the current rate of inflation in your country?

Looking back

Check out how prices for other things have changed over time.

Search the internet to find out what was the cost of a pint of milk or a gallon of petrol in the 1950s?

Year	Starting value	Equivalent cost in 2021
1920		
1930		
1940		
1950		
1960		
1970		
1980		

What happened to the numbers on your chart? Why did they change the way they did?

Your answer:

How Does Inflation Affect Me? [Time required: 15 minutes]

- ✓ Next, ask participants to think about how inflation will affect their own lives. What does it mean that any money they have now will have less purchasing power in the future? How will inflation affect their spending or saving choices?
- ✓ Explain that inflation may affect participants sooner than they think. While we can't predict exactly how much inflation will rise in the future, historically the rate has increased by 2–3% each year. Ask attendees to pretend they received € 1,000 as a gift 3 years ago. Assuming an annual inflation rate of 3%, how much is that present in euros worth today? Ask participants to calculate the amount in their notebooks.
- ✓ Next, divide participants into groups of four or five and ask them to discuss their results. What is the impact of inflation on the gift, even in the short term? Were the numbers a surprise? Why or why not?
- ✓ Invite volunteers from each group to share their findings with the class. How does inflation influence savings and wealth accumulation? Will parents make different spending or savings choices based on what they now know about inflation.