

# Section 8 – 4

## Stock Prices and Inflation

### Goals

- Understand inflation, deflation, and consumer price index.
- Use consumer price index to calculate rate of change and changes in price.

## Bear Market

- Period of time when most stocks decrease in price.



## Bull Market

- Period of time when most stocks increase in price.



## Inflation

- A general increase in prices.

## Deflation

- A general decrease in prices.

## Consumer Price Index - CPI

- Economic yardstick that helps judge the changes in the buying power of the US dollar.
- CPI is used to measure inflation and deflation.

## Rule of proportions

$$\text{If } \frac{a}{b} = \frac{c}{d}, \text{ then } ad = bc$$

### Example 1

- Use the CPI table on pg 389 to compute the rate of change of CPI (all items) from 1985 to 1990.

## Example 2

- Use the CPI table on pg 389 to compute the rate of change of CPI (shelter) from 1970 to 1991.

## Example 3

- In 1980, I bought 20,000 dollars worth of stuff. How much would you need to in 1992 to buy the same things?

- In 1985, I had 10000 in medical expenses. How much would those same medical expenses cost in 1991?

# HW

- Pg 396
- EYS 1-11