



EXAMPLE 4 Analyzing a Graph

Use the graph of the CPI from 1774 through 2010 to discuss the statement from *InflationData.com*.

“The very nature of War results in the destruction of goods. But in normal times money is spent to produce goods which makes the world a richer place. During a war, however, things are produced but . . . they are not productive things but destructive. The money is spent to destroy things. Often this is combined with an increase in the money supply in order to pay for the destruction. This increase in the money supply combined with a decrease in goods is classic inflation.”

SOLUTION

Up through the Vietnam War, it does appear that war corresponded to inflation. Since that time, however, inflation appears to have been a constant part of U.S. economics, regardless of whether the country was at war.

✓ Checkpoint

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Discuss the paragraph from *Blogvesting.com*. Do you agree with the argument? Explain.

“Inflation occurs when the monetary base grows faster than the amount of goods and services in the economy. Deficit spending, applied to boost consumption, will result in inflation because the amount of goods and services in the economy is unchanged while the monetary base is increased. On the other hand, deficit spending applied to boost production will increase the amount of goods and services, and is not necessarily inflationary.”

