

## MACROECONOMICS AT WORK EXERCISE

### INFLATION

**REFERENCE: 'Housing boom feeds inflation'** (by Morgan Mellish), *Australian Financial Review*, 24 October 2002, pp. 1, 6.

**CHAPTER RELEVANT TO THIS EXERCISE:** Chapter 10.

### OVERVIEW

Data just released for the September (2002) quarter showed that the 'headline' annual rate of inflation had risen to 3.2%, a 0.7% jump, putting the rate above the Reserve Bank target level of 2 to 3%. The overall increase was attributed to increases in the price of certain goods and services, though offset by decreases in some others. The article also refers to the concept of the 'underlying' rate of inflation which was lower, implying that some of the increases are in areas that are anticipated to be essentially temporary. One of these areas was the increase in the price of houses, considered to be related to the housing boom. Although the 'headline' rate of inflation is above the RBA target level, it was thought that the inflation figure would be unlikely to prompt the Bank to increase interest rates.

### QUESTIONS

1. What were the biggest contributors to the overall increase in prices (inflation)? Can you explain these? What is meant by 'offset falls'?
2. Explain the concepts of the 'headline', and the 'underlying' rates of inflation.
3. Why have housing prices increased? Is this increase likely to continue?
4. Explain the statement attributed to the Treasurer that 'I do not think [the RBA] will be reviewing monetary policy in the light of [these] figures.'
5. Analyse and comment on the data shown in the large table (headed 'All Categories') in relation to the article.