Price stability

1. Terms

Watch the film "Price stability".

a) Whilst you watch, make notes on the following terms:

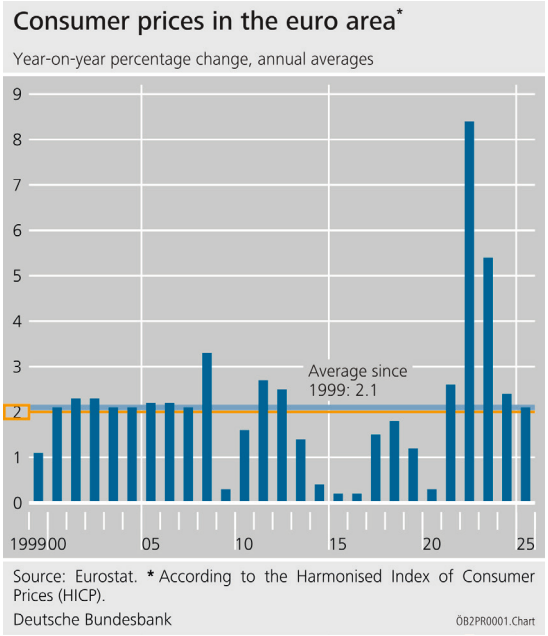
Euro	
Eurosystem	
Price level	
Price stability	
Inflation	
Deflation	

b) Compare your notes with your partner's and add to them if necessary.

c) In small groups or in front of the class, take turns explaining one of the terms listed above without saying which one it is. The person who guesses it correctly goes next.

© Deutsche Bundesbank 2026

2. Inflation rates in the euro area since 1999



a) The Eurosystem's primary objective is to maintain price stability.
How does the Eurosystem interpret this?

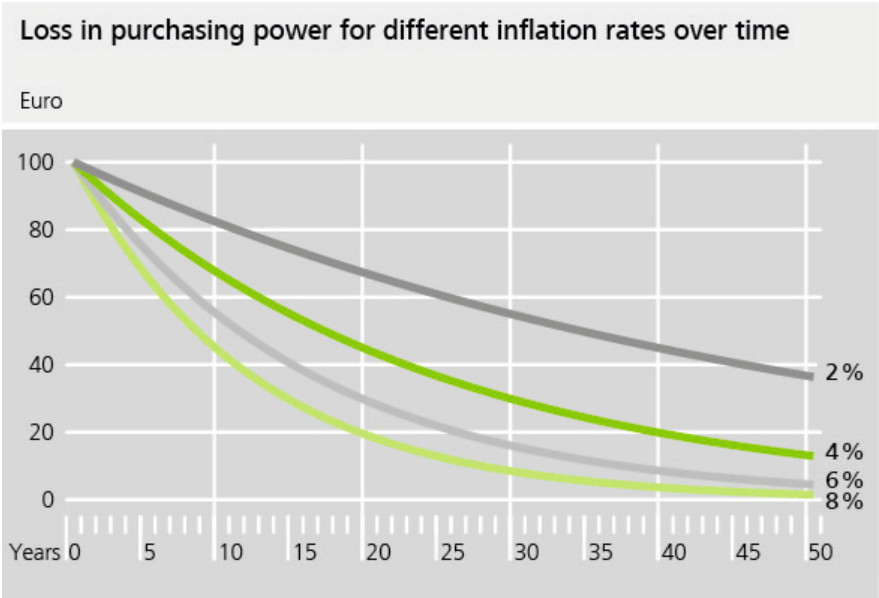
b) Has this target (bottom line in the chart) been met in recent years?

c) The top line shows the average inflation rate in the euro area. Has the Eurosystem succeeded in ensuring price stability, on average?

Solution

© Deutsche Bundesbank 2026

3. Loss of purchasing power in times of inflation



a) What purchasing power will €100 have in 10 years and in 50 years given an annual inflation rate of 2%? Use the graph to work out approximate values.

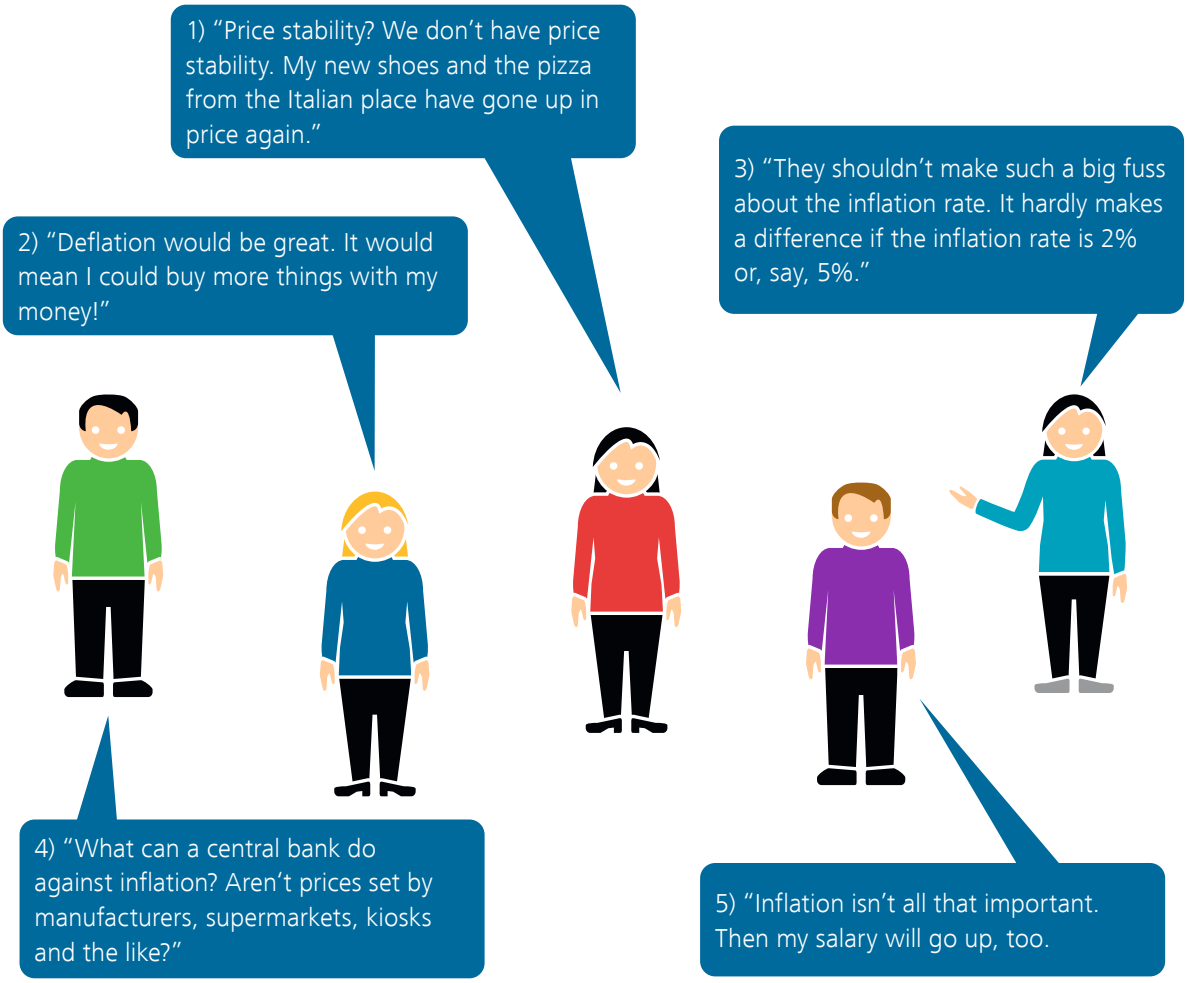
b) What purchasing power will €100 have in 10 years and in 50 years given an annual inflation rate of 4%? Compare these values with your results from a).

Solution

© Deutsche Bundesbank 2026

4. Opinions on price stability – what do you think?

Imagine you are talking with your friends about price stability, inflation and deflation. They have the following opinions. How might you respond?



Solution

1) _____

_____

_____

_____

© Deutsche Bundesbank 2026

2) _____

_____

_____

_____

3) _____

_____

_____

_____

4) _____

_____

_____

_____

5) _____

_____

_____

_____

© Deutsche Bundesbank 2026

5. The transmission mechanism of monetary policy decisions

Put the events below into the boxes in the correct order.

Events:

- Central bank raises key interest rate
- Fewer people take out loans
- Demand for goods decreases
- Prices stop rising or decline
- Less money in circulation
- Inflation

Chain of effects (transmission mechanism):

	↑
	↑
	↓
	↓
	↓
	↓

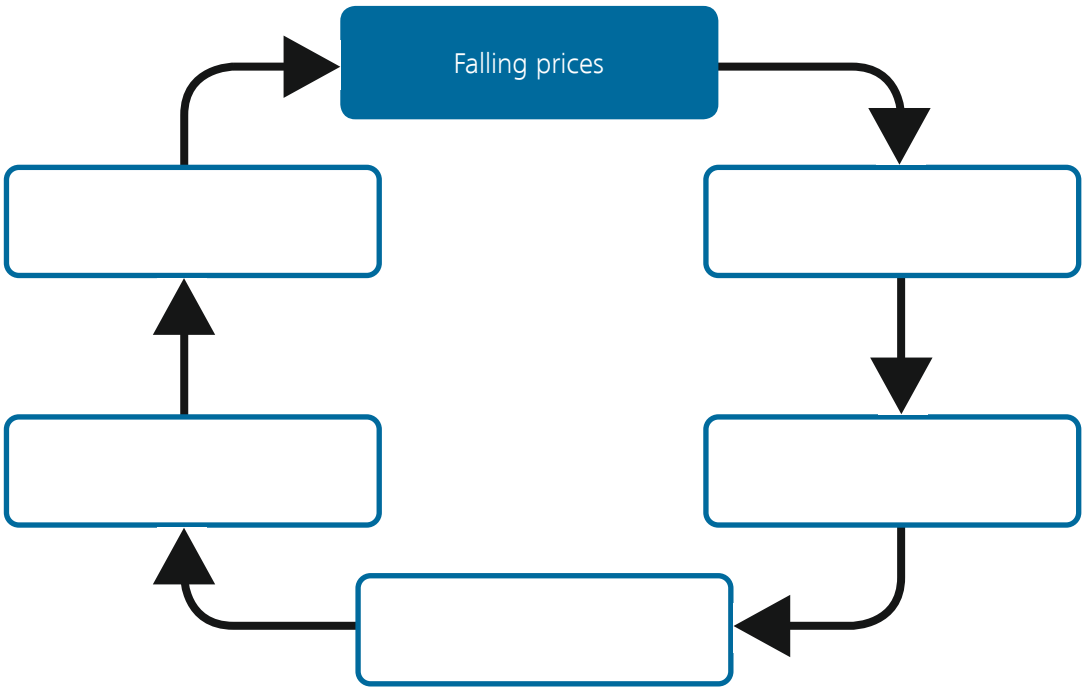
© Deutsche Bundesbank 2026

6. The deflationary spiral

At first, falling prices seem advantageous for people. However, they have negative consequences for companies and their staff. In addition, falling prices have a self-perpetuating effect. This is referred to as a "deflationary spiral".

a) Put the following statements into the chart in the correct order.

- People postpone purchasing decisions.
- Companies lay off employees.
- Companies make less profit or even losses.
- People can afford less.
- Companies have to lower prices.



© Deutsche Bundesbank 2026

b) Consider how the central bank could break the deflationary spiral.

7. Why is price stability important?

Explain to your parents why price stability is important. Describe how inflation or deflation would affect your personal environment.

© Deutsche Bundesbank 2026