

6.1 PROJECT

INFLATION AND TIME TRAVEL: THE VALUE OF MONEY OVER TIME

In 1979, the federal minimum wage in the United States was \$2.90 per hour. By 2019, that number increased to \$7.25 per hour. While there is a clear increase in the minimum wage in dollars, it is hard to compare the two figures without knowing more about how the economy changed between 1979 and 2019.

In this activity, you will explore different ways to compare the value of money across different time periods.

Economists define inflation as the rise of price levels in the economy over time. The average yearly rate of inflation between 1979 and 2019 was 3.2%. That means prices of goods and services went up by an average of 3.2% every year between 1979 and 2019.

1. Suppose that an item cost \$1.00 in 1979. What was the price of that item in 2019 when adjusted for inflation? (**Hint:** You can think about this in terms of an investment that compounds interest—if you invested \$1.00 in 1979 at 3.2% compound annually, how much would you have in 2019?)

The answer to part 1 represents the value of \$1.00 of 1979 currency in 2019 when adjusted by inflation.

2. What is the 2019 value of the 1979 minimum wage adjusted by inflation? Is this value more or less than the actual 2019 minimum wage?
3. Purchasing power is considered the amount of goods and services that can be bought with a single unit of money. Is the purchasing power of workers in 2019 lower or greater than the purchasing power of workers in 1979?
4. Perform an internet search to compare the average yearly tuition at a 4-year public university between 1979 and 2019. Did tuition increase faster or slower than the inflation rate over the same time period?

During the same time period, the average compensation for company CEOs in the US has increased by 940%.

5. Determine the 2019 value of the 1979 minimum wage if it had grown at the same rate as the CEO compensation.
6. Discuss some ways to adjust the disparity between the highest and lowest paid employees in our economy.