Inflation: why prices rise

Why does the same money buy less as time goes by?

Answers and teaching notes

For the teacher

- **Aim:** Pupils understand inflation as rising prices and falling buying power, practise percentage increases, and see why savings and wages need to keep up.
- **Curriculum links:** Financial Education Planning Framework, ages 11 to 14: understanding the important role money plays in our lives (how prices and the wider economy affect us) and how to manage money (saving and interest). Maths: percentage increase. Citizenship: the uses of money. PSHE: economic wellbeing.
- **Watch first:** the Penny Explains video "Inflation" at pennyexplains.com.
- **Starter:** Ask what a chocolate bar or a bus fare cost when pupils' parents or carers were at school. Why is it more now?
- **Support:** Find 1% first (divide by 100), then multiply. Do the milk row together. Allow calculators.
- **Stretch:** If prices rise 6% a year for two years, is that 12% in total? (No: £10.00 becomes £10.60, then £11.24, a rise of 12.4%.)
- Some families feel price rises more than others, so keep the discussion general and kind.
- **Total:** 42 points. Suggested answers are shown in red; accept any answer that is well reasoned.

I can...

- [ ] I can explain what inflation is and what the 2% target means.
- [ ] I can work out percentage increases on prices.
- [ ] I can explain what inflation does to savings and wages.

Key words

Inflation: the rate at which prices rise over time.

Buying power: how much your money can buy.

Bank of England: the UK's central bank. It aims to keep inflation near 2%.

Cost of living: the cost of everyday things.

1 What is inflation?

5 points

Use the words in the box to finish the sentences. Use each word once.

two | power | less | prices | more | wages | ten

Inflation is the rate at which **prices** rise over time. When prices go up, each pound buys **less**, so money loses some of its buying **power**. The Bank of England aims to keep inflation at about **two** per cent a year. If **wages** rise more slowly than prices, people can afford fewer things.

2 Quick quiz

4 points

Circle one letter for each question.

a) Inflation is 3% this year. What does that mean, compared with a year ago?

- **A** Prices are about 3% higher
- B Everything costs exactly 3p more
- C Prices are 3% lower
- D All wages went up by 3%

b) Who has the job of keeping UK inflation close to its target?

- A Supermarkets
- **B** The Bank of England
- C Schools
- D The Post Office

c) A game cost £50 last year. Its price has risen by 10%. What does it cost now?

- A £50.10
- **B** £55
- C £60
- D £45

d) In which case is the worker getting better off?

- A Pay up 2%, prices up 4%
- **B** Pay up 5%, prices up 3%
- C Pay up 0%, prices up 2%
- D Pay up 3%, prices up 3%

3 Tia's shopping basket

10 points

Tia, 12, compares this year's shopping prices with last year's. Fill in the gaps.



Penny says: In October 2026, UK prices were 3.6% higher than a year before. The target is 2%.

Item	Price last year	Rise	Price this year
Loaf of bread	£1.00	6%	£1.06
Milk	£1.50	4%	**£1.56**
Pasta	£1.00	2%	**£1.02**
Cheese	£3.00	10%	**£3.30**
Apples	£2.00	5%	**£2.10**
Chocolate bars	£1.50	4%	**£1.56**
Total	**£10.00**		**£10.60**

a) How much more does the whole basket cost this year? 1 mark

60p (£10.60 – £10.00).

b) What is the percentage rise for the whole basket? Is it above or below the 2% target? 2 marks

6% (60p out of £10.00 = 6 out of 100). That is above the 2% target.

4 Savings and wages against inflation

8 points

Prices are rising by **4%** a year. Show your working.

a) Tia has £200 in an account paying 1% interest a year. How much interest does she earn in a year?

Working

1% of £200 = £200 ÷ 100 = £2
New balance: £202

Answer: £2

b) A bike costs £200 today. Its price rises by 4%. What will it cost in a year?

Working

1% of £200 = £2, so 4% = £8
£200 + £8 = £208

Answer: £208

c) After a year Tia has £202. How much is she short of the bike's new price?

Working

£208 − £202 = £6
Her savings grew, but prices grew faster.

Answer: £6

d) Tia's mum earns £2,000 a month. She gets a 3% pay rise. What is her new monthly pay?

Working

1% of £2,000 = £20, so 3% = £60
£2,000 + £60 = £2,060

Answer: £2,060

5 How a price rise reaches you

6 points

These steps tell the story of a loaf of bread. Number them from 1 to 6.

5 Families find their weekly shopping bill is higher.

2 It now costs the bakery more to make each loaf.

3 The bakery charges the shops more for its bread.

6 Workers ask for a pay rise to keep up with prices.

1 The cost of wheat and energy goes up.

4 The shops put up the price on the shelf.

6 What would you do?

5 points

Read the story, then answer the questions.



Grandad Winston keeps **£500** in a biscuit tin at home. 'It is safe there,' he says. 'In ten years it will still be £500.' Tia has just learned about inflation.

a) **Grandad is right that the tin will still hold £500. So what is the problem?** 2 marks

> Prices will have risen, so £500 will buy less than it does today. The number stays the same but its buying power falls.

b) **What would you say to Grandad, and what would you do if the money were yours? Why?** 3 marks

> No single right answer. Pupils might say a savings account pays interest, which helps money keep up with rising prices, and is safer from loss or theft. If savings earn less interest than inflation, they still buy a little less each year. Keeping some cash handy for emergencies is a fair point too.

7 Odd one out

4 points

Circle the odd one out in each row. Say why.

Prices rising	Money buying less	The cost of living going up	**Prices falling**

Why? Prices falling is the opposite of inflation. The other three all describe inflation.

A 3% pay rise	3% interest on savings	A 3% rise in pocket money	**A 3% rise in prices**

Why? A rise in prices is inflation itself. The other three help your money keep up with it.

8 Before you go

One thing I learned today	One question I still have	How sure do I feel?
		Not yet · Getting there · Got it

Take it home

Ask an older relative or neighbour what a loaf of bread, a bus fare or a cinema ticket cost when they were your age. How many times bigger is the price today?

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Inflation figure for October 2026. Education, not financial advice.