

FAMILY ACTIVITY 2:

Banking on Inflation



Hurricane Andrew affected Florida, Louisiana, and Mississippi in 1992. It is the second-most costly hurricane ever to hit the United States. In 1992, the estimated cost of the hurricane was \$15.5 million. Because of inflation, that amount was equal to approximately \$21.6 million in 2005. *Inflation* is a general increase in the price of goods and services. Property and casualty actuaries include an inflation adjustment when estimating costs related to possible natural events in the future.

Inflation affects more than the cost of insurance—it affects the prices of items you buy every day. Look at the table and then answer the questions below. Use additional paper if needed.

Item	1960	1970	1980	1990	2000	2005
Average new home price	\$16,500	\$26,600	\$76,400	\$149,800	\$207,000	\$297,000
Gallon gas	\$.31	\$.36	\$1.25	\$1.16	\$1.51	\$2.10
Dozen eggs	\$.57	\$.62	\$.91	\$1.00	\$.91	\$1.35
Gallon milk	\$.49	\$1.15	\$2.16	\$2.78	\$2.78	\$3.74

Questions:

- How much more did a house cost in 2000 than in 1970? _____
What's the percentage increase? (Hint: difference/1970 price x 100) _____
- How did the price of gas change from 1980 to 1990? _____ What's the percentage change? _____
- What did a gallon of milk and a dozen eggs cost in 1960? _____ In 2005? _____
By what percentage did the cost increase? _____
- Based on inflation, what would you estimate the price of a gallon of gas will be when you get your driver's license? _____ What, besides inflation, might affect that price? _____

Answers: 1. A house cost \$180,400, or approximately 678%, more. 2. The change from 1980 to 1990 was a 9 cent decrease; the percentage decrease was 7%. 3. 1960—\$1.06; 2005—\$5.09. The cost increased approximately 380%. 4. Answers will vary. In addition to inflation, students should consider the availability of resources to produce gasoline and the demand for gasoline by consumers. Is the population increasing or decreasing? Will more or fewer people drive hybrid cars? Talk About It: Answers will vary. The rising costs of construction and building materials, salaries, etc., might affect premiums.

Photos, clockwise from top left: © Photodisc/age fotostock, inc.; © Digital Vision/Getty Images; © Blend Images/Jupiterimages.

Talk About It

How do you think inflation might affect insurance premiums, based on replacing things like a roof or a car?

