

CONCEPT: COSTS OF INFLATION – SHOE-LEATHER COSTS AND MENU COSTS

- Even if we perfectly anticipate inflation, there are unavoidable costs that individuals and firms will face:
 - **Shoe-Leather Costs** – resources wasted because you are trying to _____ holding money
 - > The imagery alludes to wear-and-tear on your shoes from the extra “running around”
 - > You sacrifice time and convenience by holding less cash
 - > Trivial with low levels of inflation
 - > **Hyperinflation** – extraordinarily rapid inflation (generally regarded as sustained inflation above 50%)
 - **Menu Costs** – the costs businesses face from changing prices
 - > The imagery alludes to a restaurant printing a new menu because of new prices
 - > The more regularly businesses must re-price their goods, the higher the menu costs will be
 - > In hyperinflation, goods may need to be re-priced weekly or even daily
 - **Tax Costs** – “phantom” income earned by increasing prices
 - > Purchase land for \$100,000 → 10% inflation → Sell land for \$110,000
 - > Must still pay taxes on the \$10,000 gain, but was it really a gain?