Teaching Deflation:
What Textbooks Miss and Active Learning Reveals

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Any comments, questions, feedback from participants must be appropriate & professional

Agenda

- ❑ Economists: Deflation is bad
- ❑ The Public: Deflation is good?
- ❑ How Textbooks Cover Deflation
    - ❑ Method
    - ❑ Results
    - ❑ Recommendations
    - ❑ Active Learning

Economists: Deflation is Bad

Deflation is correlated with economic downturns

- Recession of 1920-21
- Great Depression
- Great Recession

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Economists: Deflation is Bad

The Deflationary Spiral

Consumers believe that goods will be cheaper in the future

Consumer spending contracts

Firms reduce production

Unemployment rises

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Economists: Deflation is Bad

Many central banks target positive (low) inflation to create a buffer against deflation

- **Canada** – Bank of Canada (2.00% ±1.0%)
- **United Kingdom** – Bank of England (2.00%)
- **Australia** – Reserve Bank of Australia (2.00%–3.00%)

The Public:

The Public: Deflation is Good?

If inflation is bad,

shouldn’t deflation be good?

The Public: Deflation is Good?

Consumer Intuition

- ✓ Lower prices are good
- ✓ Greater purchasing power
- ✓ If it's good that one price falls, it's good if most prices fall

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The Public: Deflation is Good?

Consumer Intuition

- ✓ Lower prices are good
- ✓ Greater purchasing power
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Economist Intuition

- ✓ Feedback effects
- ✓ Individual choices affect aggregate demand
- ✓ Macro is different

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Research: Public Perception of Deflation

Inflation expectations survey:

(The Curious Case of the Rise in Deflation Expectations, Armantier et al. 2023)

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→31% predicted future deflation (long-term)

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Research: Public Perception of Deflation

Inflation expectations survey:

→31% predicted future deflation

→Consumers who expect future deflation

→Predict future favorable economic conditions

(The Curious Case of the Rise in Deflation Expectations, Armantier et al. 2023)

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Research: Public Perception of Deflation

The public confuses disinflation and deflation

(Kane & Wlezien, 2026)

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Research: Public Perception of Deflation

"Suppose you hear that the inflation rate decreased from 5% last month to 4% this month. Would this mean that prices have decreased from last month?"

(Kane & Wlezien, 2026)

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Research: Public Perception of Deflation

"Suppose you hear that the inflation rate decreased from 5% last month to 4% this month. Would this mean that prices have decreased from last month?"

No

(Kane & Wlezien, 2026)

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Research: Public Perception of Deflation

50.4% answered incorrectly

(Kane & Wlezien, 2026)

How is this taught in textbooks?

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Method

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1. Define deflation in terms of rates and levels.
2. Distinguish deflation from disinflation.
3. Explain why deflation is harmful (but not just in symmetric terms to how inflation changes the borrower/creditor calculus)

Method

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1. Define deflation in terms of rates and levels.
2. Distinguish deflation from disinflation.
3. Explain why deflation is harmful (but not just in symmetric terms to how inflation changes the borrower/creditor calculus)
4. Address the counterintuitive nature of deflation

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Method

Assessed 6 textbooks' treatment of disinflation on the following criterion:

1. Define deflation in terms of rates and levels.
2. Distinguish deflation from disinflation.
3. Explain why deflation is harmful (but not just in symmetric terms to how inflation changes the borrower/creditor calculus)
4. Address the counterintuitive nature of deflation

We awarded one point for each of the four criteria met above for a high score of 4 and a low score of 0.

Author , Title (Ed.)	Total Score	Define Deflation (rates/levels)	Distinguish Deflation + Disinflation	Why is it bad/ worse?	Counter-intuitive
CORE, Macroeconomics (2.0)	2	-	+	+	-
Krugman & Wells, Economics (7)	1	-	-	+	-
Mankiw	2	-	+	+	-
Mateer & Coppock, Principles of Economics (10)	2	+	-	-	+
OpenStax Principles of Economics (3e)	2	+	-	+	-
Stevenson & Wolfers Principles of Economics (2)	2	-	-	+	+

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Results

Most textbooks…

- Do not define deflation in terms of rates and levels
- Do not distinguish deflation from disinflation
- Do explicitly teach why deflation is bad
- Do not acknowledge the counterintuitive nature of deflation

Recommendations for textbook authors and educators

- ❑ Use clear definition of deflation and distinguish from disinflation
- ❑ Include deflationary spiral visual
- ❑ **Teach:** deflation is rare and correlated with economic downturns
- ❑ **Design:** Include above information in one location in inflation chapter
- ❑ **Teach:** Central banks target low/positive inflation rate in part to protect against deflation
- ❑ **Teach: Active Learning!**

Deflationary Spiral Role-Play Activity

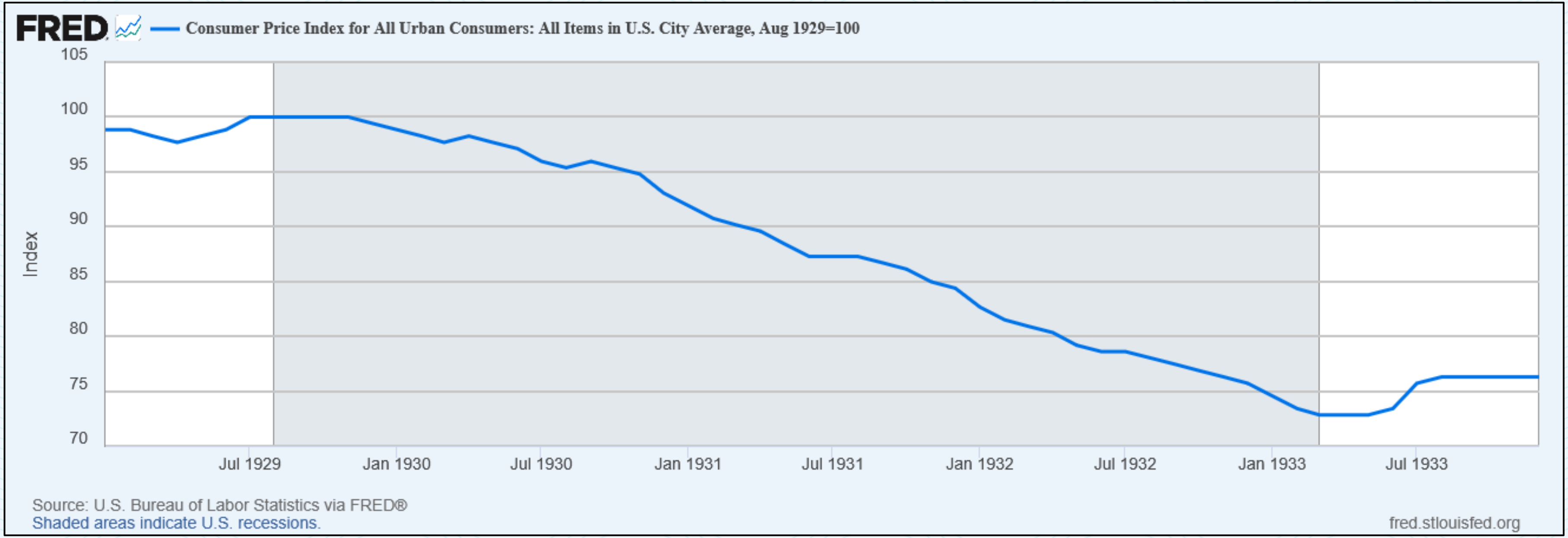
Students participate in a six-scene role-play set in a small U.S. town during the Great Depression.

Learning Objectives

- Define deflation as a sustained decline in the general price level.
- Distinguish economy-wide deflation from a price decline for one product.
- Explain how falling spending can lead firms to cut prices, production, and employment.
- Explain how deflation can increase real debt burdens and encourage delayed purchases.
- Construct and explain a deflationary feedback loop using evidence from the role-play.

Consumer Price Level: The Great Depression

Recession August 1929- March 1933



Falling from 100 (August 1929) to 72.8 (March 1933) means that the general consumer price level declined about 27.2 percent. It does not mean that every individual price fell by exactly that amount.

Deflationary Spiral Activity

Deflation can amplify weak demand.

1) When people expect prices to continue falling, they may delay some large purchases.

2) Debts are usually fixed in dollar terms. When prices and incomes fall, borrowers must repay the same number of dollars with lower incomes, so the real burden of debt rises.

Role	Students
Narrator	1
Customer(s)	1-2
Car dealership owner	1
Car salesperson	1
Car dealership worker	1
Automobile factory owner	1
Automobile factory worker(s)	1-4
Auto worker’s family member	1
Appliance store owner	1
Appliance store worker	1
Delivery company owner	1
Delivery driver(s)	1-2
Truck factory owner	1
Truck factory worker(s)	1-4
Steel mill owner	1
Steelworkers	1-4
Total	16-27

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Instructions

- Read your cards, think about your narrative, and rehearse.
- Know where you will move at the end of the scene.
- As workers are laid off, they will move to the "Workers with Reduced Income / Unemployed Workers" area.

- Start with the narrator…

Questions?

Thank you!

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