# Deflationary Spiral Role-Play Activity

## Lesson Authors

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## Activity Description

Students participate in a six-scene role-play set in a small U.S. town during the Great Depression. The story begins with weak demand, unsold goods, and falling prices. Students then observe how lower business revenue, reduced production, layoffs, falling household income, delayed purchases, and heavier real debt burdens can reinforce one another. After the role-play, students arrange event cards into a feedback loop and explain why economy-wide deflation can deepen a recession.

## Grade Level

9-12, College

## Learning Objectives

- Define deflation as a sustained decline in the general price level.
- 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.
- Explain a deflationary feedback loop using evidence from the role-play.

## Concepts

Aggregate spending; deflation; depression; employment; income; price level; production; real debt burden; recession; unemployment.

## Materials

- Visual 1: The Deflationary Spiral
- Visual 2: Consumer Price Level During the Great Depression
- Visual 3: Deflation Can Amplify Weak Demand
- Visual 4: Roles
- Handout 1: Scene Signs, one copy, cut apart

**This lesson is an adapted and reimagined version of** Unemployment Role Play Activity, Federal Reserve Bank of St. Louis, 2018. Draft for instructional review. This adaptation emphasizes deflation as an amplifier of a broader collapse in aggregate demand rather than treating falling prices as an isolated cause of the Great Depression.

- Handout 2: Narrator, one copy for the student narrator
- Handout 3: Assessment, one copy per student
- Masking tape, chart paper, and markers

## Procedure

1. Ask students whether a lower price is usually good for a buyer. Acknowledge that a sale on one item can benefit consumers.
2. **Display Visual 1.** Explain that the lesson concerns deflation. Define deflation as a general, sustained downward movement of prices for goods and services in an economy - rather than a lower price for one good. Explain that Visual 1 shows a deflationary spiral, a situation in which falling prices lead to further declines in spending and production. Prices communicate information and generate revenue for businesses. If households and firms reduce spending, businesses may be left with unsold goods. Businesses often respond by lowering prices and reducing production. If they produce less, they need fewer workers and other inputs.
3. **Display Visual 2**. Explain that Visual 2 shows the Consumer Price Index, which measures inflation, or deflation. Explain that from August 1929 (index 100) to March 1933 (index 72.8) the general consumer price level declined about 27.2 percent. Tell students that does not mean that every individual price fell by exactly that amount. Over the same period, economic output (as measured by Real GDP) fell about 29 percent and unemployment rose to about 25 percent. Emphasize that deflation occurred alongside a severe decline in spending, output, income, and employment.
4. **Display Visual 3**. Introduce two ways deflation can amplify weak demand. First, when people expect prices to continue falling, they may delay some large purchases. Second, 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.
5. Assign the narrator and other roleplay participants using **Visual 4**.
6. Post the scene signs from **Handout 1** around the room. Designate a separate area as Workers with Reduced Income or Unemployed Workers. Explain that each student in this area represents many workers and households.
7. Distribute the scene cards using **Handout 2**. Adjust the number of workers to fit the class. Allow five to eight minutes for students to read their roles and rehearse. Ask students to exaggerate the movement from one location to another so the chain of effects is visible.
8. Have the narrator read **Handout 2**, then perform all six scenes. As workers are laid off, they should move to the reduced-income area and visibly put away a shopping list or purchase card.
9. **Closure.** After the role play, use the following questions to debrief the activity.

- **Why did the car dealer lower prices?** *(Customers were buying fewer cars, leaving the dealership with unsold inventory.)*
- **Why did lower car prices not immediately restore sales?** *(Customers were worried about income and some expected prices to fall further, so they postponed purchases.)*
- **How did lower sales affect production?** *(Dealers and stores reduced orders; factories produced fewer vehicles and appliances and demanded less steel and delivery service.)*
- **Why did layoffs create another round of weak demand?** *(Laid-off workers lost income and reduced their own purchases, which lowered revenue for other businesses.)*
- **Why did deflation make debt harder to repay?** *(The dollar amount owed did not fall, but wages, prices, and business income did. Borrowers had to give up more purchasing power to make the same payment.)*
- **Does every price decline create a deflationary spiral?** *(No. Deflation is an ongoing decline in the overall price level. A lower price for one product may reflect productivity or competition and does not by itself signal an economy-wide contraction.)*

## Assessment

Distribute **Handout 3**. Students define deflation, explain at least four links in the feedback loop, and apply the concepts to fixed debt and delayed purchases. A 10-point scoring guide is provided with the teacher key.

## Common Misconceptions to Address

**"Lower prices are always bad."** A lower price for a particular good can benefit consumers. The lesson concerns a sustained economy-wide decline associated with collapsing demand, income, and output.

**"Deflation caused the Great Depression by itself."** Deflation was one part of a larger contraction involving reduced spending, bank failures, monetary contraction, falling output, and financial distress. It also made several of those problems worse.

**"If prices fall, every household is better off."** Buying power may increase for someone whose income and wealth remain secure, but many households lost jobs or income, and debt payments did not decline with prices.



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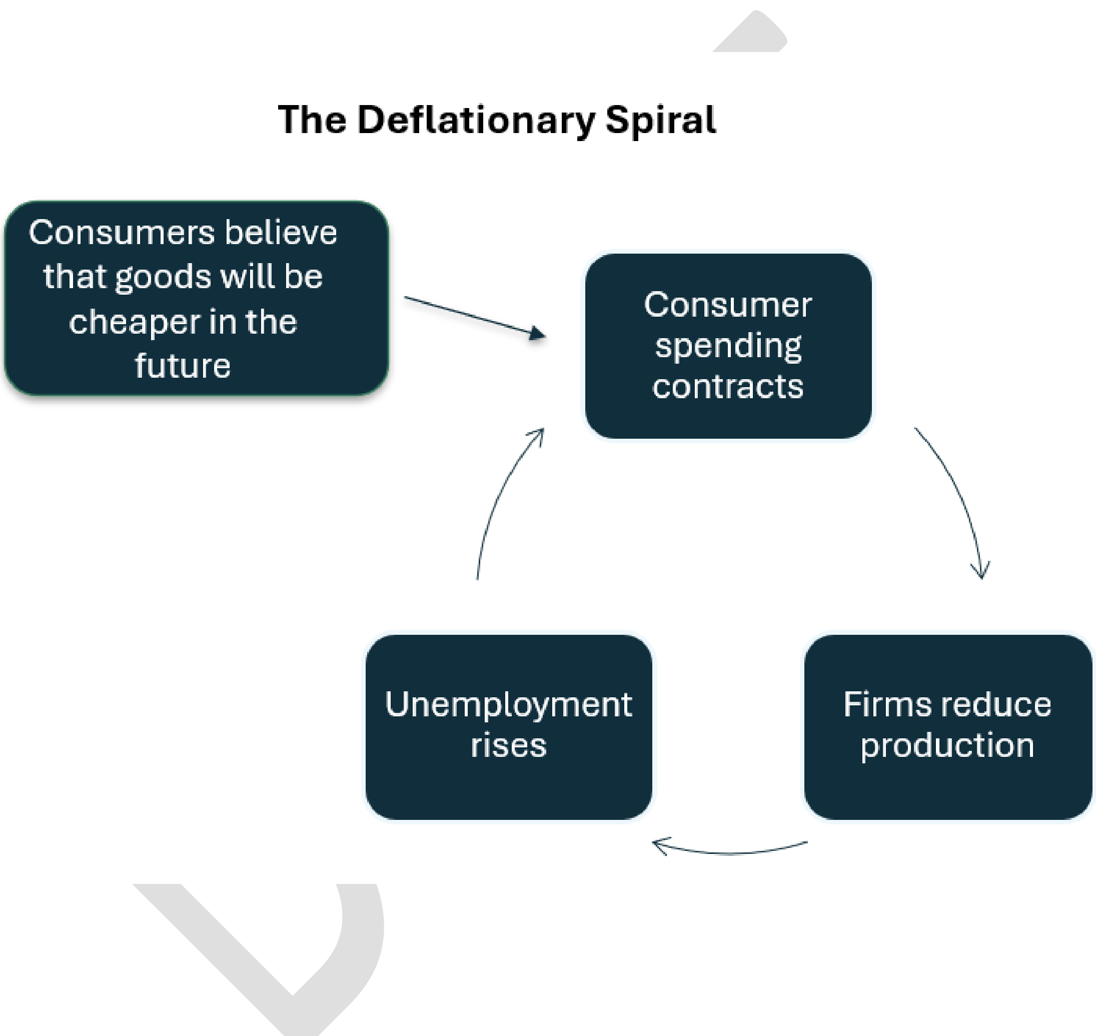
**"Businesses can solve the problem simply by cutting prices."** Price cuts may help one firm compete, but economy-wide weak demand can leave many businesses with lower revenue and little reason to expand production.

**Visual 1: The Deflationary Spiral**

## Deflation: A general, sustained downward movement of prices for goods and services in an economy.

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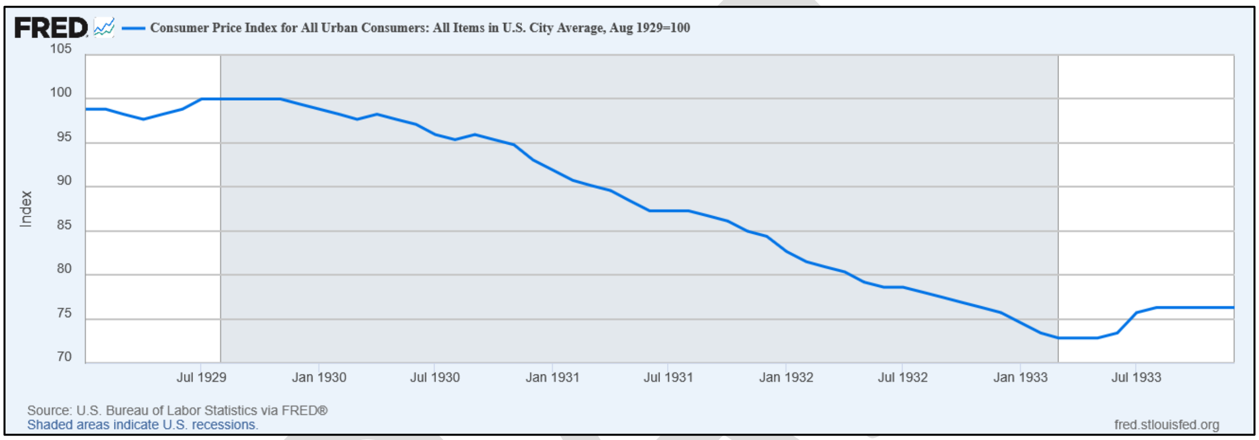
**Visual 2: Consumer Price Level Index the Great Depression**

# Consumer price index (CPI): A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.




U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCNS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCNS, August 4, 2026.
https://fred.stlouisfed.org/graph/?g=1XNSw

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**Visual 3: Deflation Can Amplify Weak Demand**

## 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.

**Visual 4: Roles**

| | |
|---|---|
| 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** |

**Handout 1: Scene Signs**

# Customers

# Car Dealership



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**Handout 1: Scene Signs (continued)**

# Automobile Factory

# Auto Worker's Home

# Appliance Store

# Delivery Company

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**Handout 1: Scene Signs (continued)**

# Truck Factory

# Steel Mill

# Workers with Reduced Income or Unemployed Workers

# Narrator Script

We are traveling back to a small town in the United States in 1931. Two years have passed since the economy began to contract. Families and businesses have reduced their spending, stores have unsold goods, factories are receiving fewer orders, and banks have become less willing or able to lend.

Across the country, the general price level is falling. This is called deflation. Deflation is not simply a sale on one item. It means that prices are falling across much of the economy for a sustained period.

Falling prices may sound like good news for buyers, but the town has a problem. People who expect prices to fall further may wait before buying cars, appliances, and other expensive goods. Businesses receive less revenue. At the same time, families and businesses still owe debts written in fixed numbers of dollars. As wages and incomes fall, those payments become harder to make.

Between 1929 and 1933, consumer prices in the United States fell about 27 percent, real GDP fell nearly 30 percent, and unemployment rose to about 25 percent. Prices, production, income, and employment were all moving downward.

The students in each scene represent many households, workers, and businesses. Watch how one decision affects another person's income and how the effects eventually return to the businesses where the story began.

Our story begins at the car dealership, where cars are not selling.

# Scene 1: Car Dealership

**Roles: Two customers, dealership owner, salesperson, and one or more dealership workers.**

The owner points to several unsold cars and announces that the price of one model has been reduced from $600 to $550. A customer says that prices have been falling and that a similar car might cost even less in a few months. The customer is also worried about losing income, so the customers decide to wait.

The owner explains that lower prices mean less revenue on every car and that the dealership still has rent, loan payments, and payroll to meet. Because sales remain weak, the owner lays off one worker and reduces the next order from the automobile factory. The laid-off worker moves to the reduced-income / unemployment area.

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# Scene 2: Automobile Factory

**Roles: Factory owner and four or more factory workers.**

The factory owner receives the dealership's smaller order. The factory already has unsold cars, so the owner has cut selling prices. However, loan payments and many production costs have not fallen as quickly as car prices. Revenue and profits have declined.

The owner reduces production and lays off three workers. The laid-off workers move to the reduced-income / unemployment area. The owner also reduces the factory's order for steel.

## Scene 3: Auto Worker's Home

**Roles: One laid-off automobile worker from Scene 2 and a family member.**

The worker reports losing the factory job. The family member reviews the household budget. The family's income has fallen, but the monthly home and installment-loan payments are unchanged. The family crosses luxury items and several groceries from its list and cancels an order for a refrigerator.

The worker explains: "Prices are lower, but our debt did not get smaller, and now we have less income." The auto worker goes to the appliance store to cancel the order.



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## Scene 4: Appliance Store

**Roles: Laid-off auto worker, appliance store owner, and appliance store worker.**

The auto worker cancels the refrigerator order. The store owner explains that refrigerator prices have already been reduced, but customers are still postponing purchases or lack the income to buy. The store's revenue has fallen.

The owner lays off the store worker, who moves to the reduced-income / unemployment area. The owner then calls the delivery company and cancels several scheduled deliveries.

# Scene 5: Delivery Company and Truck Factory

**Roles: Delivery company owner, two drivers, truck factory owner, and four factory workers.**

The delivery company owner says there are fewer appliances and other goods to deliver. The owner lays off the two drivers and cancels an order for a new delivery truck.

The truck factory owner receives the canceled order. The factory reduces truck production, lowers the price of its remaining trucks, and lays off three workers. The truck factory then reduces its order for steel. Laid-off workers move to the reduced-income / unemployment area.

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# Scene 6: Steel Mill and Return to Town

**Roles: Steel mill owner, four or more steelworkers, narrator, and all workers in the reduced-income / unemployment area.**

The steel mill owner receives smaller orders from the automobile and truck factories. The owner cuts steel production, lowers the selling price of steel, and lays off several workers. Those workers move to the reduced-income area.

The **narrator** asks everyone in the reduced-income / unemployment area to hold up a crossed-out shopping list. The narrator explains that these households will now spend less at the car dealership, appliance store, grocery store, and other businesses. The reduced spending sends the effects back toward the beginning of the story.

**Handout 3: Assessment**

Write a complete response to each of the following questions.

1. Define deflation. Explain how it differs from a decrease in the price of one product.

2. Beginning with consumers believing prices will be lower in the future, explain the links in a deflationary spiral.

3. A household owes a fixed $500 debt payment. Explain why the payment becomes harder to make if prices and the household's income fall.

4. Why might expecting lower prices in the future cause some consumers or businesses to postpone purchases today?

5. Complete the statement: During the Great Depression, deflation was both a result of weak demand and a force that amplified the downturn because...



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**Handout 3: Assessment Answer Key**

**1. Definition (2 points):** Deflation is a sustained decline in the general price level. A decrease in one price is a relative-price change and does not necessarily mean prices are falling across the economy.

**2. Feedback loop (3 points):** Award full credit for a coherent chain containing at least four correct links, such as consumer spending falls -> firms reduce production, firms lay off workers and unemployment rises, leading to consumers reducing their spending.

**3. Real debt burden (2 points):** The debt remains $500 in nominal terms while income and prices fall. The borrower must give up a larger share of income or purchasing power to make the same payment.

**4. Delayed purchases (2 points):** If buyers expect a car, appliance, inventory item, or machine to cost less later, some may wait. That reduces current demand, especially for purchases that can be postponed.

**5. Synthesis (1 point):** Accept any accurate explanation showing that weak demand pushed prices down and that deflation then amplified the contraction through revenue losses, debt burdens, delayed purchases, lower production, layoffs, and additional reductions in spending.



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## Standards and Benchmarks

### National Content Standards in K-12 Economics

### Standard 15: Inflation

**Inflation is an increase in the average price level. Inflation, both expected and unexpected, imposes costs and benefits on individuals and the overall economy.**

15.M.1 Inflation is an increase in most prices; deflation is a decrease in most prices.



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