

Economics of History Activity



Conflict and Absolutism in Europe

Inflation in Sixteenth Century Europe

During the sixteenth century, Europe's population began to grow rapidly, which caused an increased demand for goods, food, and land. Prices of this merchandise also began to rise, and the normally stable economy of Europe began to experience inflation.

Inflation is the general rise in prices, and it can have many causes. Many modern historians believe the rise in population created too great a **demand** for a limited **supply**. However, economists of the sixteenth and seventeenth centuries thought that the inflation was caused by so many precious metals being brought over from the New World. The thinking was that the more money there was, the less it was worth, and the less it would buy.

Economics Terms to Know

inflation when prices generally go up

supply amount of a product offered for sale at all possible prices in a market

demand combination of desire, ability, and willingness to buy a product

Whatever the actual cause—and it was most likely a combination of factors—the rate of inflation at the time was not as dramatic as what we are used to today. Estimates show that prices increased at a rate of about 3 percent per year. The annual inflation rate in the United States in 2009 was -0.3. Because sixteenth-century Europeans had been used to a very stable economy for so long, people felt the change.

The effects took a wide range of forms. Generally during inflation, prices tend to rise more quickly than wages do. Workers were able to buy less and less, and their standard of living dropped. But not everyone suffered from the inflation. Landowners, for example, were able to charge higher rents to make up for the price differences.

People who were producing food and goods also profited from the rising prices. Not only were they paying their workers less, they were also selling to an expanding marketplace—more and more people who needed their goods. Some historians believe that in this way, inflation was actually a great stimulus to Europe's economy.

Applying Economics to History

- 1. Drawing Conclusions** Europe's inflation may have been caused in part by large amounts of precious metals coming in from the New World. Even though money was worth less during the period of inflation, what do you think happened to its value as the economy improved?

Economics of History Activity *Cont.*



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2. **Analyzing** Who was hit hardest by Europe's inflation in the sixteenth century? Why?

3. **Identifying Central Issues** What do historians believe were two possible causes of the inflation?

4. **Making Inferences** What might have helped Europe avoid inflation?
