

B A Semester IV

MJC-6

Topic

Inflation Its Types & Causes

egyankosh, <http://egyankosh.ac.in> portal
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<http://egyankosh.ac.in//handle/123456789/44262>

Self Learning Material 4 " " "

PDF file

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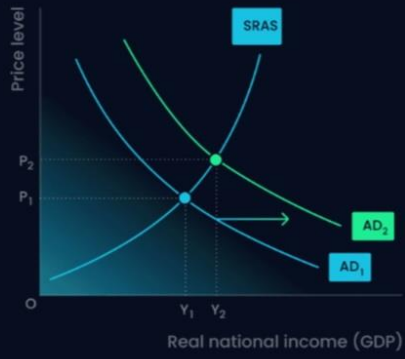
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<https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Inflation>

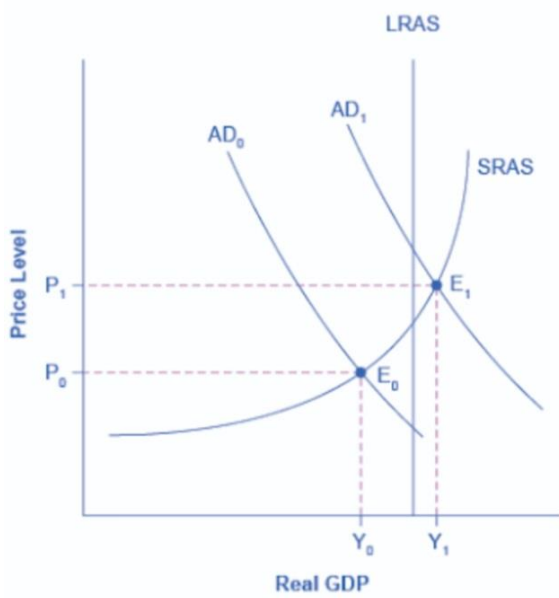
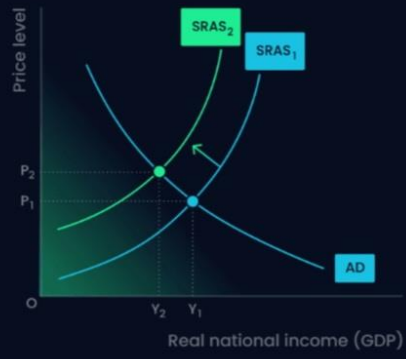
<https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-inflation>

slides

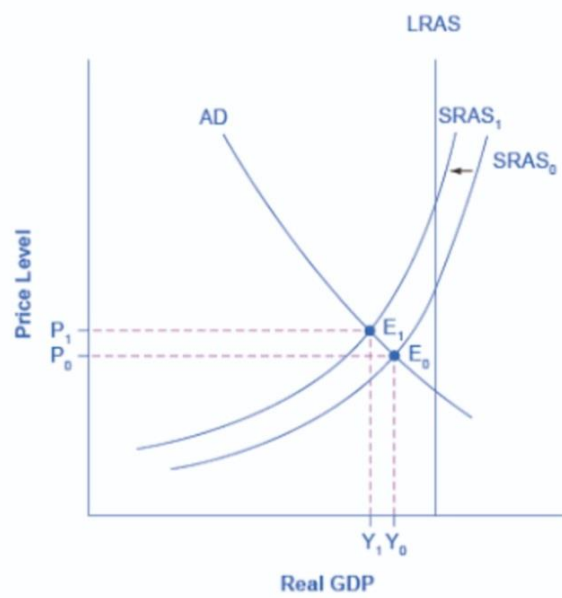
Demand-pull inflation



Cost-push inflation



(a) Inflationary pressure from a shift in AD



(b) Inflationary pressure from a shift in AS

TYPES OF INFLATION

Creeping inflation: It is a condition where the inflation in a country increases slowly but continuously over a period of time and the effect of inflation is noticed after a long period of time. It is a general price increase say up to 4% a year.

It reduces the purchasing power, but this type of inflation is manageable.

Trotting inflation: If the creeping inflation increases a few more hundreds of basis points, it is called as trotting inflation. It causes little more pain than the creeping inflation.

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Galloping inflation: If trotting inflation is not controlled and if the rate of inflation is between 8 to 10% per year, such inflation is called as galloping inflation.

Runaway inflation: If the inflation becomes uncontrollable and when the galloping inflation aggravates, it leads to runaway inflation.

Hyperinflation: When prices are out of control - monthly inflation rate of 20-30% or more - an inflammatory cycle without any tendency towards equilibrium.

Demand-pull inflation: This type of inflation is caused by increase in aggregate demand due to increased private and government spending, etc. Demand inflation encourages economic growth since the excess demand and favourable market conditions will stimulate investment and expansion.

Cost-push inflation: This type of inflation also called "supply shock inflation," is caused by a drop in aggregate supply (potential output). This may be due to natural disasters, or increased prices of inputs. For example, a sudden decrease in the supply of oil, leading to increased oil prices, can cause cost-push inflation. Producers for whom oil is a part of their costs could then pass this on to consumer in the form of increased prices.

Built-in inflation: Built-in inflation is a type of inflation that results from past events and persists in the present. Built-in-inflation is one of three major determinants of the current inflation rate.

Asset Inflation: Rising prices in assets like housing, gold, or stocks etc.

Other related concepts

Deflation: Persistent general fall in the level of prices. Quite opposite to inflation.

Disinflation: It is a decrease in the rate of inflation - a slowdown in the rate of increase in general price level of goods and services in a nation's GDP over time. It is quite opposite to inflation. Simply put, it is reduction in the rate of inflation.

Stagflation: It is a combination of inflation and rising unemployment/recession. It is the situation where inflation rate is high, the economic growth rate is slow and unemployment remains steadily high. Stagflation makes it difficult for the people to buy the goods they intend to buy and find new economic opportunities. Simply put it is a combination of inflation and rising unemployment/recession.

Relation: A situation where inflation returns after a spell of recession and deflation. Growth will be back in such situation.

Core inflation: Core inflation refers to the rise in prices of goods and services other than energy and food. Energy (fuel & power) and food are highly volatile in prices, and hence kept out of core inflation. Core inflation is considered as the prime indicator of underlying long-term inflation.

Headline inflation: A measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes.

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● Why deflation is worse than inflation

Deflation is worse because interest rates can only be lowered to zero. As businesses and people feel less wealthy, they spend less, reducing demand further. Prices drop in response, giving companies less profit. Once people expect price declines, they delay purchases as long as possible. They know the longer they wait, the lower the price will be. This further decreases demand, causing business to slash prices even more. It is a vicious, downward spiral.