

Inflation

Topic.Ninja

Definition

Increase in general price levels of goods and services in an economy over time.

Causes

Occurs when aggregate demand exceeds aggregate supply.

Results from increased production costs passed on to consumers.

Caused by an increase in the money supply exceeding economic growth.

Results from expectations of future price increases leading to higher wages and prices.

Demand-Pull Inflation

Cost-Push Inflation

Monetary Inflation

Built-In Inflation

Types

Low and steady increase in prices, usually manageable by central banks.

Extremely rapid and out-of-control price increases, often leading to economic instability.

Simultaneous occurrence of high inflation and stagnant economic growth.

Moderate Inflation

Hyperinflation

Stagflation

Measurement

Measures changes in the price level of a basket of consumer goods and services.

Measures changes in the selling prices received by domestic producers.

Consumer Price Index (CPI)

Producer Price Index (PPI)

Effects

Decreases as the value of money declines, leading to reduced buying capacity.

Often rise to combat inflation, affecting borrowing costs and investment decisions.

Increases, impacting individuals' budgets and standard of living.

Real returns diminish as inflation erodes the value of savings and investments.

Purchasing Power

Interest Rates

Cost of Living

Savings and Investments

Impacts on Businesses

Increase due to higher input prices such as raw materials and labor.

Companies may raise prices to maintain profit margins, affecting consumer behavior.

Workers may demand higher wages to keep up with rising living costs, impacting labor markets.

Production Costs

Pricing Strategies

Wage Pressures

Global Implications

Inflation differentials between countries can impact currency values and trade balances.

Inflation rates influence competitiveness and pricing of exported goods and services.

Exchange Rates

International Trade

Government Response

Central banks adjust interest rates and money supply to control inflation.

Governments may use taxation and spending policies to influence economic activity and inflation.

Monetary Policy

Fiscal Policy

Strategies for Individuals

Spread investments across different asset classes to hedge against inflation risk.

Invest in bonds or assets whose returns adjust with inflation rates.

Invest in tangible assets like real estate or commodities that may retain value during inflationary periods.

Diversification

Inflation-Indexed Securities

Real Assets