# INFLATION

## When there is a continuous increase in the price level of majority of commodities of any country then such a situation is called inflation.

**DIFFERENT TYPES OF INFLATION.**

Inflation can be of different types

1. Classification of inflation according to cause
2. Classification of inflation according to speed
3. Classification according to possibility of inflation/control of inflation
4. Classifications according to Keynes

CLASSIFICATION OF INFLATION ACCORDING TO CAUSE:

According to this category inflation can be categorised into six types

1. Currency inflation: when the price level of commodities of a country increase continuously as a result of the increase in the circulated paper currency of the economy then such a situation is called currency inflation.
2. Credit inflation: when the price level of commodities of a country increases continuously as a result of the excess quantity of bank credit or bank deposit then such a situation yes called credit inflation.
3. Deficit induced inflation: in order to meet the excess expenditure of the government new notes are printed or it is financed through bank loan when the government is running in deficit ( government expenditure is greater than government income), such a situation is called deficit financing. When the price level of a country increases continuously due to the excess deficit financing then such a situation is known as deficit induced inflation.
4. Wage induced inflation: due to the trade union pressure when the wage rate rises in comparison of the marginal productivity of labour, this leads to an increase in the general price level of commodities of a country Then such a situation is called wage induced inflation.
5. Demand inflation: when the price of the commodities of the country increases continuously due to the increase in the demand for that commodity whereas the supply remains constant or same then such a situation leads to a demand inflation.
6. Cost inflation: when the price of a commodity of a country increases do the increase and the cost of production ( prices of the factors of production ) then it leads to a situation call cost inflation or seller’s inflation.

CLASSIFICATION OF INFLATION ACCORDING TO SPEED:

According to the speed of increase in the price level inflation can be categorised enter the following three types

1. Mild or creeping inflation: when the price level of the commodities of a country increases at a very slow rate then such a situation is called mild or creeping inflation.
2. Walking or trotting inflation: When the price level of the commodities of a country increases continuously and it becomes a severe or intense then such a situation is called walking or trotting inflation.
3. Galloping or hyperinflation: when the price level of the commodities of a country rises continuously at a rapid rate then such a situation is called galloping or hyperinflation.

CLASSIFICATION ACCORDING TO THE POSSIBILITY OF INFLATION/ CONTROL OF INFLATION:

According this category inflation can be categorised into three types

1. Disguised or latent inflation: disguised inflation occurs when the purchasing power is in disguised condition, as even though the saving in large liquid cash form is available at hands but using it for purchasing of goods will self-reveal inflation through the expenditure on the purchase. An economic situation created due to the scarcity of commodity or due to the different restriction of the government where the people cannot purchase commodities in spite of having large amount of savings in the form of liquid cash at hand Is called disguised or latent inflation.
2. Open inflation: When the price level of the country rises freely and the government of the country or the monetary authority does not take any measures to control the price rise then such a situation created is called open inflation.
3. Suppressed or repressed inflation: when the price level of the country rises continuously and the government or the monitory policy take necessary steps in order to control the price level thereby not letting to rise freely then such a situation is called suppressed or repressed inflation.

CLASSIFICATION ACCORDING TO KEYNES:

Keynes classifies inflation into two types:

1. True/full/pure inflation: When the country is in full employment situation the supply of commodities remain fixed and it cannot increase. In such situation there will be a continuous increase in the price level of a country as the demand for commodities increase. This situation that has been created is called pure inflation.
2. Partial/falls/semi inflation: when the country is in under employment situation(there isn't full employment which means that the supply can increase) then due to scarcity of any factor of production the price level of country increases continuously in the short run. Such a situation which is created is called partial inflation.

**HYPERINFLATION- ITS CAUSE AND EFFECTS.**

Hyperinflation is a situation where the price level of goods and services increase by more than 50% in a month.

There are two scenarios occurring that contributes or leads to hyperinflation. Hyperinflation starts when the government of a country prints more money in order to pay for its spending. With more money in circulation then people will be having more currency at hand and their purchasing power will increase. With the increase in the purchasing, there arises a demand pull inflation as the demand for goods and services will be more than the supply that is available in the country. Since the demand is greater than the supply the prices of the goods and services increase. In such a situation instead of controlling and tightening the money supply in the country in order to stop inflation, the government keeps on printing more money and hence increases the money supply of the country. This results in continuous rise in price and people starts hoarding (which will worsen the case even further), as they speculate that the prices will rise further in the future they will buy more at present even if the prices are high as they wants to avoid to pay even more higher price in the near future hence creating more shortage of supply and higher demands. Therefore the increase in demand aggregates or rises the inflation.

The worst affect are the elderly people as they lose their life saving as cash now becomes worthless. Even banks suffer and go bankrupt as their loans lose its value. People will not deposit more money and the banks can’t give out loans and will have no money to run resulting in bankruptcy. Hyperinflation causes the value of Indian currency to fall very fast in the foreign exchange market. When such thing happens then the country has to pay more in order to purchase the same commodity, hence importers go out of business. Unemployment increases as more companies shut down due to loses. In such a situation only two people gain from it. First are the ones who have taken a loan. They find the higher prices make their debt worthless by comparison. Second are the ones who exports good and services, since the value of the Indian currency has gone down our goods becomes cheaper as compared to the foreign competition. This increases the demand for our commodity and they get more foreign currency and increase their income as the value of the foreign currency has now increase.

**STAGFLATION**

Stagflation in a situation when the economy faces both inflation and stagnation simultaneously. When the price level of a country is increasing before reaching the full employment level, then we experience inflation in the country. Along with this inflation if the country faces stagnation of economic growth and employment then such a situation is called stagnation. During this phase there is a continuous rise in the price level but the national income (economic growth and employment) does not increase.

Stagflaation is caused by the following two reasons:

* Insufficient and slow rate of economic growth due to deficit or irregular supply of important factors, lack of sufficient amount of demand in the market etc
* cost of production rises due to the increase in the price of other inputs along with wages. but necessary amount of employment, production do not rise due to the slow rate of economic growth.

Therefore, increase in unemployment and slowing of economic growth from one side and rise in the prices from other side creates the situation of stagflation.

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