Unit two : The MACROECONOMY

LESSON TWO: Inflation

1. What Is Inflation?

Inflation is the general increase in the prices of goods and services over time. When inflation happens, your money buys less than before.

2. Causes of Inflation

- Demand-Pull Inflation: When demand is greater than supply.
- Cost-Push Inflation: When production costs increase.
- Monetary Inflation: When more money is printed.

3. Types of Inflation

- Moderate Inflation: Slow increase (2–10% per year).
- Galloping Inflation: Fast increase (10–100% per year).
- Hyperinflation: Extremely fast increase (over 100% per month).

4. Effects of Inflation

Positive:

- Encourages production.
- Reduces the real value of debt.

Negative:

- Reduces purchasing power.
- Savings lose value.

- Creates uncertainty.

5. Measuring Inflation

Inflation is measured using the Consumer Price Index (CPI).

6. Controlling Inflation

- Monetary Policy: Raise interest rates, reduce money supply.
- Fiscal Policy: Reduce spending, increase taxes.