



3055 BA SANGAM COLLEGE

PH: 6674003/9264117 E-mail: basangam@connect.com.fj



WORKSHEET 12

LESSON NOTES

School: Ba Sangam College

Year: 11

Name: _____

Subject: Economics

Strand 3	Macroeconomics
Sub Strand 3.3	Inflation
Content Learning Outcome EC11.3.3.1	Use the Consumer Price Index (CPI) as a measurement for inflation in the economy.

Inflation it is the rise in the average prices of goods.

Four major types of inflation

- **Suppressed inflation** - Situation where demand exceeds supply but the effect on the price level is minimized by the use of such devices as price controls/ rationing.
- **Hyperinflation** (galloping inflation) - An accelerated price increase (sudden increase)
- **Creeping inflation** - Increasing of prices at a slower rate but continually overtime.
- **Imported inflation** - Increasing in price of foreign raw materials and semi processed goods which adds to costs in domestic production and imported goods.

CAUSES OF INFLATION

1. Increase in Money Supply

A group of economists called the “Monetarists” believe that if there is more money in the economy, the producers will increase their prices of goods to make more profits.

2. Increase in Costs of Production (Cost-Push Inflation)

This kind of inflation arises when there is an increase in the „cost of production“. Example : when the cost of raw materials increases, the producer will increase their prices so as to make more profits.

3. Increase in Market Demand for Goods and Services (Demand – Pull Inflation)

Arises when consumers demand more of certain goods but the supply is not enough. Therefore, producers will increase their prices to make a lot of profits.

4. Imported Inflation

This arises when the price of imported goods increases and there is a devaluation of the nation's Currency.

EFFECTS OF INFLATION

Those Who Lose:

1. Income Distribution: Those with fixed income such as salary earners and pensioners suffer a loss in purchasing power and decline in their living standards.
2. Trade: A country with high rate of inflation and a huge domestic cost structure is at a disadvantage which affects international competitiveness.
3. Savings– Is discouraged.
4. Wages – Tends to increase but less rapidly than prices.
5. Creditors / Lenders – Lose during inflationary period.
6. Production - Cost push inflation squeezes profit margin which leads to cash flow problems and either shows business expansion or forces firms out of the market.

Those Who Gain :

1. Wages -Tend to increase more rapidly than prices.
2. Debtors - As they pay less than what they borrowed.
3. Production – Moderate demand pull inflation encourages business expansion because of higher potential profits.
4. Sellers of properties e.g. land owners gain.

ACTIVITY

ESSAY

This question is worth **10 marks**. Write an essay of approximately 180 – 200 words to answer the question.

Note: 1 mark is allocated for the introduction and conclusion.

QUESTION 1

Inflation is an economic disease which cannot be totally eradicated.

With reference to the above statement, discuss:

- any **three** types of inflation (3 marks)
- any **three** factors that cause inflation (3 marks)
- any **three** ways government intervenes to correct inflation (3 marks)

The End