

PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES- WEEK 13

**Subject:** Economics

**Year:** 11

**Strand:** 3

**Sub Strand:** 3.3- Inflation

**Content Learning Outcome:** - Describe the types, causes and effects of inflation.

**Lesson Notes (Copy notes in your note book)**

- Inflation is the general increase in the average price level of goods and services.

**Types**

1. 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.
2. Hyper- inflation (galloping inflation) - A sudden increase in price.
3. Creeping inflation - Increasing of prices at a slower rate but continually overtime.
4. Imported inflation - Increasing in price of foreign raw materials and semi processed goods which adds to costs in domestic production and imported goods.

**Causes**

1. Increase in Money Supply
2. Increase in Costs of Production (Cost-Push Inflation)- as 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**

**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.

**Class Activity ( Copy and attempt activity in your activity book)**

1. Cost push inflation is caused by increase in
  - A. factor prices
  - B. exchange rates.
  - C. aggregate supply.
  - D. aggregate demand.
2. The Current Price Index
  - A. measure changes in the cost of living in all consumers.
  - B. measure the average price change of all goods and services produced.
  - C. does not take into account changes in the pattern of consumer's expenditure.
  - D. weighs each item according to its relatively importance in the consumer expenditure budget.
3. Which of the following is a type of inflation?
  - A. Demand pull.
  - B. Galloping.
  - C. Cost push.
  - D. Increase in money supply.
4. Which of the following groups of people will lose out during inflation?
  - A. Debtors.
  - B. Creditors.
  - C. Borrowers.
  - D. Sellers of properties.

**Essay Writing ( Write essay in your essay book)**

Inflation is a disease which must be cured.

Discuss the above statement with reference to:

- definition of inflation and 2 causes of inflation;
- three types of inflation; and
- three negative effects of inflation.