

**Subject:** Economics

**Year:** 11

**Strand:** 3

**Sub Strand:** 3.3- Inflation

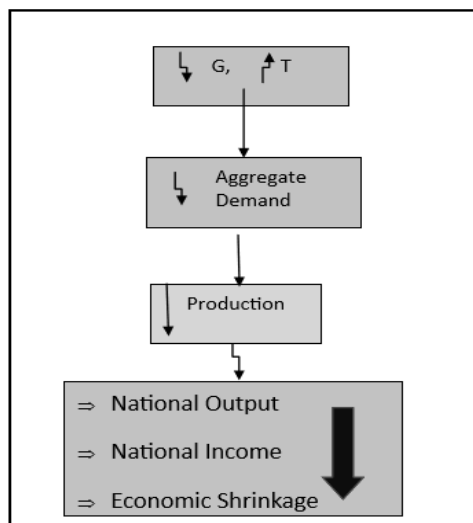
**Content Learning Outcome:** - Deliberate on the different government policies aimed at combating inflation

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

Policies to Curb Inflation

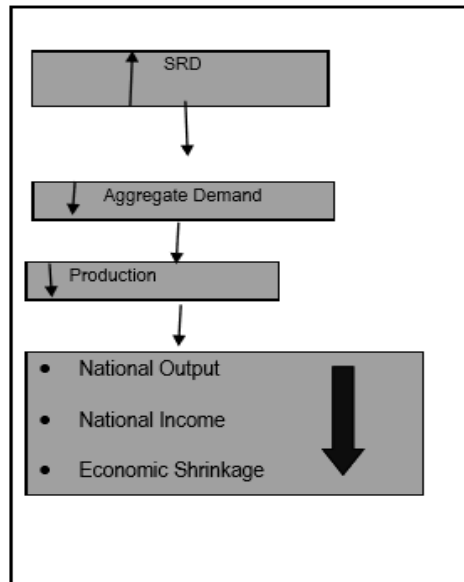
1. Contractionary Fiscal Policy

- This action is taken by the government to curb inflation the country.
- The tools for this action are Government Spending (G) and Taxes (T)
- The government will reduce its Government Spending and increase its Tax.
- Therefore when there is a tax increase, prices will increase too. Consumers demand will decrease due to increase in price.
- This will result in a decrease in production, national output, national income which will finally result in Economic shrinkage (decrease in size of the economy)



2. Tight Monetary Policy (Contractionary Monetary Policy)

- This action is taken by the Reserve Bank of Fiji.
- The tool for this action is Statutory Reserve Deposit (SRD) – Keeping a percentage of deposit and lending out the rest.
- The Reserve Bank of Fiji (RBF) will increase Statutory Reserve Deposit. Meaning RBF will hold more money than it use lend before.
- This will result in a decrease in money supply, decrease in aggregate demand, decreased in production, national output, national income which will finally result in Economic shrinkage (decrease in size of the economy).



### Deflation vs. Stagflation

- Deflation is the opposite of inflation. It refers to situation, where there is decline in general price levels. It occurs when the inflation rate falls below 0% (or it is negative inflation rate). It increases the real value of money and allows one to buy more goods with the same amount of money over time. It has caused the side effects of increasing unemployment in an economy, since the process often leads to a lower level of demand in the economy.
- Stagflation refers to economic condition where economic growth is very slow or stagnant and prices are rising. The side effects of stagflation are increase in unemployment- accompanied by a rise in prices. Stagflation occurs when the economy isn't growing but prices are going up.

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

1. Which policy could be used to curb inflation?
 

A. Expansionary fiscal policy.	B. Loose monetary policy.
C. Expansionary monetary policy.	D. Tight monetary policy.
2. The situation whereby inflation is accompanied by rising unemployment is described as
 

A. deflation.	B. stagflation.	C. hyperinflation.	D. suppressed inflation.
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3. Which of the following best describes galloping inflation?
  - A. An accelerated price increase.
  - B. Increasing in price of foreign goods.
  - C. Increasing of prices at a slower rate but continually overtime.
  - D. Rising prices are checked by taking measures such as rationing and price controls.

**Fill In The Blanks:** Inflation is the \_\_\_\_\_ i \_\_\_\_\_ in the average price of goods and services and the \_\_\_\_\_ ii \_\_\_\_\_ in value of the purchasing power.