ECONOMICS SS2

INFLATION

Inflation refers to a persistent or sustained increase in the general price level in an economy. It is a period when " too much money chases fewer goods and services. The value of money therefore falls during Inflation.

TYPES OF INFLATION

1. Demand-pull Inflation: This type of Inflation emanates from excess of demand over supply. If the demand for goods and services increases without a corresponding increase in their supply, prices will increase. If the price increase persist Inflation will occur.

Causes of demand-pull Inflation

(i) Increase in the income of consumers.

(ii) A reduction in the personal income tax.

(iii) Increase in the population of the consumers.

(iv) Excessive deficit financing by the government.

2. Cost-push Inflation: This type of Inflation emanates from the increase in the cost of producing goods and services. In order to maintain the profit margins producers are forced to pass part of their higher cost to consumers in the form of higher prices. If the price increase persist, Inflation will occur.

Causes of cost- push Inflation.

(I) Increase in the cost of acquiring raw materials.

(ii) Demand for higher wages by workers.

(iii) Increase in the cost of acquiring factors of production.

(iv) Increase in the tax paid by producers.

3. Open Inflation: This is a type of Inflation generated by an increase in money supply without a corresponding increase in the volume of goods and services. This increases the supply of money resulting to an increase in the general price level.

Causes of open Inflation

(I) Excessive bank lending by commercial banks.

(ii) Over-expansion of currency by the Central bank.

ASSIGNMENT

Explain five causes of Inflation in West Africa.