INFLATION

MEANING OF INFLATION

Inflation means a substantial and rapid increase in the general price level which causes a decline in the purchasing power of money. Inflation is statistically measured in term of percentage increase in the price index per unit of time (usually a year or a month). There is NO generally accepted definition of Inflation and different Economists define it differently.

According to Crowther, inflation is a "state in which the value of money is falling, i.e, the price are rising".

According to Friedman, "Inflation is always and everywhere a monetary phenomenon.

According to Coulbowrn, "too much money chasing too few goods".

According to Hawtrey, inflation is associated with "the issue of too much currency".

Keynes defined inflation as a phenomenon of full employment. According to him, inflation is the result of the excess of aggregate demand over the available aggregate supply and true inflation start only after full employment. So long there is unemployment, employment will change in the same proportion as the quantity of money and when there is full employment, prices will change in the same proportion as the quantity of money. Keynes ~~does~~ does not deny that prices may rise even before full employment, mainly due to the existence of certain bottlenecks in the expansion of output. But, he termed such a rise in prices as semi-inflation. It is the true inflation (after full employment), which poses a real threat to the economy and is to be worried about.

The modern view of inflation can be summarised in the following ways —

(i) Generally two type of inflation are distinguished: demand pull inflation and cost push inflation. In the demand pull inflation, inflation and falling unemployment are supposed to go together, while in cost push inflation, inflation and rising unemployment are supposed to occur simultaneously.

(ii) During late 1950's A.W Phillips emperically supported the idea that there existed a permanent long-run trade off between inflation and unemployment which implied that less inflation meant more unemployment and less unemployment would coexist with a higher rate of inflation.

(iii) In the late 1960's the monetarist held the view that trade off between inflation and unemployment existed only in the short-run and not in the long run. In the longrun when anticipated inflation is equal to actual inflation, inflation and unemployment will simultaneously increase.