**Inflation:**

The inflation is the amount the cost of living has raised over the past 12 months. It is measured by the government checking the prices of the normal goods we buy and comparing to other years. The cost of living rises so we cannot afford to spend money on leisure items as we need to spend more on the average goods. This in turn means we spend less so the government get less money. If the inflations is above 5% we cannot compete with imports.

**Deflation:**

If there is a deflation then the shops lower their prices so people will spend their money on it but people stop spending as we expect things to get even lower. This then puts us in an even worse position where we need to put people out of their jobs, then they can’t afford to spend any money.

Surplus:

The amount of money made from selling the exports is higher than the imports. This means we are selling to other countries more than we are buying from other countries, this make us more self-sufficient which means the government more money.

**Deficit:**

When money is owed by importing higher amounts than we export, this means we are dependent on the other countries to supply us with certain products. We can stop this by making the products that the other countries make at a cheaper price to then replace the imports, and then we can export that.

**The Competition:**

The government have to keep the prices low enough to stop us from importing goods yet not low enough to not turn a profit. We cannot compete with countries such as China and India so we improve the quality of the goods to above their standard. The advantages to us are we get higher wages than them and better working hours. To stay competitive we must lower taxes, lower inflation and keep the pound strong in the exchange rate.