Meaning of Inflation

There has been much disagreement among the economists over the definition of inflation, because it is not easy to give a precise and yet generally accepted definition to inflation. Inflation is highly controversial term and undergoes many modifications since it was first defined by the Neo- classical economists as a monetary phenomenon. Inflation simply means a continuous increase in general price level. It can be described as a decline in the real value of money or a loss of purchasing power in the medium of exchange. When the general price level rises, each unit of currency buys fewer goods and services. Inflation has been defined in several ways by different economists.

According to Coulbourn, "Inflation is too much of money chasing too few goods."

According to Keynes, 'Inflation is the form of taxation which the public finds hardest to evade.'

According to Samuelson, 'Inflation denotes a rise in general level of prices'.

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

According to Brooman, "Inflation is a continuing increase in the general price level."

According to Johnson, "Inflation is a sustained rise in prices".

According to Shapiro, "Inflation is a persistent and appreciable rise in the general level of prices."

According to Crowther, "Inflation is a state in which the value of money is falling i.e. the prices is rising."

According to Ackley, "Inflation as a persistent and appreciable rise in the general level or average of prices."

Features of Inflation

The characteristics or features of inflation are as follows:-

1. It is a long-term process.
2. It is a state of disequilibrium.
3. It is scarcity oriented.
4. It is dynamic in nature.
5. It is a post full employment phenomenon.
6. It is a purely monetary phenomenon.
7. Inflationary price rise is persistent and irreversible.
8. Inflation is caused by excess demand in relation to supply of all types of goods and services.
9. Inflation involves a process of the persistent rise in prices. It involves rising trend in price level.

Terms related to Inflation The important terms related to inflation are as follows:-

Deflation is a condition of falling prices. It is just the opposite of inflation. In deflation, the value of money goes up and prices fall down. Deflation brings a depression phase of business in the economy.

Disinflation refers to lowering of prices through anti-inflationary measures without causing unemployment and reduction in output.

Reflation is a situation of rising prices intentionally adopted to ease the depression phase of the economy. In reflation, along with rising prices, the employment, output and income also increase until the economy reaches the stage of full employment.
Stagflation: Paul Samuelson describes Stagflation as the paradox of rising prices with increasing rate of unemployment. It simply means stagnation (unemployment) plus inflation.
Stagnation: Stagnation in the rate of economic growth which may be a slow or no economic growth at all.
Statflation: The term 'Statflation' was coined by Dr. P.R. Brahmananda to describe the inflationary situation of India. According to Brahmananda, Rising prices in the middle of a recession is known as Statflation.

Types of inflation

Inflation can be of different types based on certain important aspects, which is given below.

I-Types of Inflation on Coverage

1. Comprehensive Inflation: When the prices of all commodities rise throughout the economy it is known as Comprehensive Inflation. Another name for comprehensive inflation is Economy Wide Inflation.
2. Sporadic Inflation: When prices of only few commodities in few regions (areas) rise, it is known as Sporadic Inflation. It is sectional in nature. For example, rise in food prices due to bad monsoon (winds bringing seasonal rains in India).

II-Types of Inflation on Time of Occurrence

1. War-Time Inflation: Inflation that takes place during the period of a war-like situation is known as War-Time inflation. During a war, scare productive resources are all diverted and prioritized to produce military goods and equipments. This overall result in very limited supply or extreme shortage (low availability) of resources (raw materials) to produce essential commodities. Production and supply of basic goods slow down and can no longer meet the soaring demand from people. Consequently, prices of essential goods keep on rising in the market resulting in War-Time Inflation.

2. Post-War Inflation: Inflation that takes place soon after a war is known as Post-War Inflation. After the war, government controls are relaxed, resulting in a faster hike in prices than what experienced during the war.

3. Peace-Time Inflation: When prices rise during a normal period of peace, it is known as Peace-Time Inflation. It is due to huge government expenditure or spending on capital projects of a long gestation (development) period.

III-Types of Inflation on Government Reaction or its degree of control

1. Open Inflation: When government does not attempt to restrict inflation, it is known as Open Inflation. In a free market economy, where prices are allowed to take its own course, open inflation occurs.

2. Suppressed Inflation: When government prevents price rise through price controls, rationing, etc., it is known as Suppressed Inflation. It is also referred as Repressed Inflation. However, when government controls are removed, Suppressed inflation becomes Open Inflation. Suppressed Inflation leads to corruption, black marketing, artificial scarcity, etc.

IV-Types of Inflation on Rising Prices rate of inflation

1. Creeping Inflation : When prices are gently rising, it is referred as Creeping Inflation. It is the mildest form of inflation and also known as a Mild Inflation or Low Inflation. According to R.P. Kent, when prices rise by not more than (upto) 3% per annum (year), it is called Creeping Inflation.

2. Chronic Inflation : If creeping inflation persist (continues to increase) for a longer period of time then it is often called as Chronic or Secular Inflation. Chronic Creeping Inflation can be either Continuous (which remains consistent without any downward movement) or Intermittent (which occurs at regular intervals). It is called chronic because if an inflation rate continues to grow for a longer period without any downturn, then it possibly leads to Hyperinflation.

3. Walking Inflation : When the rate of rising prices is more than the Creeping Inflation, it is known as Walking Inflation. When prices rise by more than 3% but less than 10% per annum (i.e between 3% and 10% per annum), it is called as Walking Inflation. According to some economists, walking inflation must be taken seriously as it gives a cautionary signal for the occurrence of Running inflation. Furthermore, if walking inflation is not checked in due time it can eventually result in Galloping inflation.

4. Moderate Inflation : Prof. Samuelson clubbed together concept of Creeping and Walking inflation into Moderate Inflation. When prices rise by less than 10% per annum (single digit inflation rate), it is known as Moderate Inflation. According to Prof. Samuelson, it is a stable inflation and not a serious economic problem.

5. Running Inflation : A rapid acceleration in the rate of rising prices is referred as Running Inflation. When prices rise by more than 10% per annum, running inflation occurs. Though economists have not suggested a fixed range for measuring running inflation, we may consider price rise between 10% to 20% per annum (double digit inflation rate) as a running inflation.

6. Galloping Inflation : According to Prof. Samuelson, if prices rise by double or triple digit inflation rates like 30% or 400% or 999% per annum, then the situation can be termed as Galloping Inflation. When prices rise by more than 20% but less than 1000% per annum (i.e. between 20% to 1000% per annum),

galloping inflation occurs. It is also referred as Jumping inflation. India has been witnessing galloping inflation since the second five year plan period.

7. Hyperinflation : Hyperinflation refers to a situation where the prices rise at an alarming high rate. The prices rise so fast that it becomes very difficult to measure its magnitude. However, in quantitative terms, when prices rise above 1000% per annum (quadruple or four digit inflation rate), it is termed as Hyperinflation. During a worst case scenario of hyperinflation, value of national currency (money) of an affected country reduces almost to zero. Paper money becomes worthless and people start trading either in gold and silver or sometimes even use the old barter system of commerce. Two worst examples of hyperinflation recorded in world history are of those experienced by Hungary in year 1946 and Zimbabwe during 2004- 2009 under Robert Mugabe's regime.

V- Types of Inflation on Causes

1. Deficit Inflation : Deficit inflation takes place due to deficit financing.
2. Credit Inflation : Credit inflation takes place due to excessive bank credit or money supply in the economy.
3. Scarcity Inflation : Scarcity inflation occurs due to hoarding. Hoarding is an excess accumulation of basic commodities by unscrupulous traders and black marketers. It is practised to create an artificial shortage of essential goods like food grains, kerosene, etc. with an intension to sell them only at higher prices to make huge profits during scarcity inflation. Though hoarding is an unfair trade practice and a punishable criminal offence still some crooked merchants often get themselves engaged in it.
4. Profit Inflation : When entrepreneurs are interested in boosting their profit margins, prices rise.
5. Pricing Power Inflation : It is often referred as Administered Price inflation. It occurs when industries and business houses increase the price of their goods and services with an objective to boost their profit margins. It does not occur during a financial crisis and economic depression, and is not seen when there is a downturn in the economy. As Oligopolies have the ability to set prices of their goods and services it is also called as Oligopolistic Inflation.
6. Tax Inflation : Due to rise in indirect taxes, sellers charge high price to the consumers.
7. Wage Inflation : If the rise in wages in not accompanied by a rise in output, prices rise.
8. Build-In Inflation : Vicious cycle of Build-in inflation is induced by adaptive expectations of workers or employees who try to keep their wages or salaries high in anticipation of inflation. Employers and Organisations raise the prices of their respective goods and services in anticipation of the workers or employees' demands. This overall builds a vicious cycle of rising wages followed by an increase in general prices of commodities. This cycle, if continues, keeps on accumulating inflation at each round turn and thereby results into what is called as Build-in inflation.
9. Development Inflation : During the process of development of economy, incomes increases, causing an increase in demand and rise in prices.

10. Fiscal Inflation : It occurs due to excess government expenditure or spending when there is a budget deficit.
11. Population Inflation : Prices rise due to a rapid increase in population.
12. Foreign Trade Induced Inflation : It is divided into two categories, viz., (a) Export-Boom Inflation, and (b) Import Price-Hike Inflation.
13. Export-Boom Inflation : Considerable increase in exports may cause a shortage at home (within exporting country) and results in price rise (within exporting country). This is known as Export-Boom Inflation.
14. Import Price-Hike Inflation : If a country imports goods from a foreign country, and the prices of imported goods increases due to inflation abroad, then the prices of domestic products using imported goods also rises. This is known as Import Price-Hike Inflation. For e.g. India imports oil from Iran at $100 per barrel. Oil prices in the international market suddenly increases to $150 per barrel. Now India to continue its oil imports from Iran has to pay $50 more per barrel to get the same amount of crude oil. When the imported expensive oil reaches India, the Indian consumers also have to pay more and bear the economic burden. Manufacturing and transportation costs also increase due to hike in oil prices. This, consequently, results in a rise in the prices of domestic goods being manufactured and transported. It is the end-consumer in India, who finally pays and experiences the ultimate pinch of Import Price-Hike Inflation. If the oil prices in the international market fall down then the import price-hike inflation also slows down, and vice-versa.
15. Sectoral Inflation : It occurs when there is a rise in the prices of goods and services produced by certain sector of the industries. For instance, if prices of crude oil increases then it will also affect all other sectors (like aviation, road transportation, etc.) which are directly related to the oil industry. For e.g. If oil prices are hiked, air ticket fares and road transportation cost will increase.
16. Demand-Pull Inflation : Inflation which arises due to various factors like rising income, exploding population, etc., leads to aggregate demand and exceeds aggregate supply, and tends to raise prices of goods and services. This is known as Demand-Pull or Excess Demand Inflation.
17. Cost-Push Inflation : When prices rise due to growing cost of production of goods and services, it is known as Cost-Push (Supply-side) Inflation. For e.g. If wages of workers are raised then the unit cost of production also increases. As a result, the prices of end-products or end-services being produced and supplied are consequently hiked. Difference between Demand pull and Cost push inflation
18. Demand-Pull Inflation Cost-Push Inflation Happen due to demand rise Happen due to cost rise Leads to upward shift in aggregate demand Leads to upward shift in aggregate supply Here price rise first Here wage rise first Price rise is due to excess demand Price rise is due to rise in cost of production For this Government is blamed For this trade unions are blamed Controlled by fiscal & monetary policies Controlled with administrative methods

VI-Types of Inflation on Expectation or predictability

1. Anticipated Inflation : If the rate of inflation corresponds to what the majority of people are expecting or predicting, then is called Anticipated Inflation. It is also referred as Expected Inflation.

2. Unanticipated Inflation : If the rate of inflation corresponds to what the majority of people are not expecting or predicting, then is called Unanticipated Inflation. It is also referred as Unexpected Inflation.