



Demand-pull inflation – this occurs when the economy grows quickly and starts to ‘overheat’ Aggregate demand (AD) will be increasing faster than aggregate supply... So Shortage is created.

Cost-push inflation – this occurs when there is a rise in the price of raw materials, Labour higher taxes, etc. We can also categorise inflation by how fast the price increases are, such as:

Creeping inflation – low %, but consistently / continuously creeping up alike Asian Countries 6 to 8%

Walking/Moderate inflation – (7 to 10%) like INDIA, Singapore, Malaysia, Dubai etc.

Running inflation (10-20%)

Wage Rate Inflation

Rising wages tend to cause inflation. In effect, this is a combination of demand-pull and cost-push inflation. Rising wages increase costs for firms, and so these are passed onto consumers in the form of higher prices. Also rising wages give consumers greater disposable income and therefore cause increased consumption and AD. In the 1970s, trades unions were powerful in the UK. This helped cause rising nominal wages; this was a significant factor in causing inflation of the 1970s.

Imported Inflation

A depreciation in the exchange rate will make imports more expensive. Therefore, domestic prices can get bubbled up... Also due to high level of consumption of Imported Items... it creates Induced Consumption pressure in Society, so results in Price hike i.e. Inflation.

Hyper Inflation

Hyperinflation is a term used when inflation rates exceed upto 25 -30 & even upto 50%. This is typically caused by rapid growth of the supply of paper money. The best studied/old example is post-WWII Germany, where the Republic was faced with having to pay reparations from the war, as well as stimulating economic growth. Very recent Examples are Shri Lanka & Pakistan with super high Petrol and Food costs in last few months of Year 2022 upto 2023 beginning.

Galloping Inflation Galloping inflation (also Jumping inflation) is one that develops at a rapid pace (dual or triple-digit annual rates), perhaps only for a brief period. Such form of inflation is dangerous for the economy as it mostly affects the middle and low-income classes of population. Mainly its in Food, Travelling & basic necessities, however bit lesser than Hyper* Inflation.