Inflation

Increase in the overall level of prices. Decrease in purchasing power.

Causes

Long run

Too much money

Printing too much money
"too much money chasing too few goods"

Demand pull inflation

Prices rise due to excessive spending.

Cost push inflation

Prices rise due to increases in price of factors of productions.

Short run

Expectations

Excess demand

Supply shocks

Wage Price Spiral

Cost push inflation. Prices rise, people want higher wages. Companies rase prices. Prices rise. And back to the start.

Types

- Creeping inflation -- $1 - 3\%$

- Hyperinflation -- $500\%+$
- Stagflation -- inflation during recession

Types

Core

Excludes food and fuel (Stuff that changes price fast)

Sticky

Includes everything

Measure

Consumer Price Index

Government measure of the change in price over time of a specific group of goods & services used by the average household.
It uses a market basket.

Problems

Substitution Bias

When a good increases in price, people buy substitutes. If the substitutes are not in the market basket.

New Goods

New goods are not taken into account

Quality Changes

Quality changes are not taken into account

CPI VS GDP

CPI

Let price change.

GDP

Let production change.

Winner and Losers

Winners

- Borrowers
- Government
- Workers with a COLA
  They repay their loans with money that has less purchasing power.

Losers

- Lenders and savers
- Money losses value.
- Fixed income (no COLA)
  Their money is now worth less