

INFLATION

-Batman

Inflation is a sustained increase in the general level of prices for goods and services. As inflation rises, every unit of currency buys a smaller quantity of goods and services.

The factors that influence inflation most are the interest rates, supply and prices.

The factors that contribute to a change in the level of inflation:

- **Interest rate:** When there is a decrease in the interest rate, more number of industries and individuals borrow money leading to an increase in **money supply, public savings and consumer spending**. These in turn result in a rise in **employment** and aggregate **demand**. Monetarists believe that an increase in demand leads to higher levels of inflation.
- **Money supply:** Inflation is caused by an increase in money supply which leads to an increase in aggregate demand. The higher the money supply, the higher is the rate of inflation. Money supply may increase with the expansion of **private sector** or the **repayment of public debt** by the government.
- **Disposable income:** An increase in disposable income results from an increase in **national income** or employment. When the disposable income of the people increases, it raises their demand for goods and services. Reduction of **tax rate** also results in a higher disposable income.
- **Government expenditure:** Government expenditure increases with the expansion of government activities, which result in a rise of demand for goods and services.
- **Black money: Tax evasion and corruption** promote an increase in black money, which in turn leads to an increased demand. People spend such easy money extravagantly, thereby creating unnecessary demand for goods and services.
- **Deficit financing:** In order to compensate its increasing expenses, the government adopts deficit financing by borrowing from the public and even by printing more notes. This raises the aggregate demand in relation to the aggregate **supply**, thereby leading to inflationary rise in **prices**. This is also known as deficit-induced inflation.
- **Oil prices:** Oil prices and inflation are often seen as being connected in a cause and effect relationship. As oil prices move up or down, inflation follows in the same direction.
- **Resources:** Shortage of resources such as manpower, raw materials, capital etc. lead to reduction in the supply of goods and services which in turn results in inflationary rise of prices. **Industrial disputes** decrease the productivity of manpower; **natural calamities** adversely affect the supply of food products and raw materials; **artificial scarcities** are created by speculators and hoarders who indulge in black marketing – these three factors lead to a drastic decrease in the availability of resources.
- **Exports:** When the country produces more goods for exports than for domestic use, it leads to an increase in aggregate demand in relation to the aggregate supply, thereby contributing to inflation.

Instructions:

1. Go to Network and expand time delay Amount of time:2 and Burn in time :2
2. Compile the Net

Sample Test Cases

1. Inflation decreases when Interest Rates are raised
2. On increasing the Oil Prices Inflation Increases
3. On increasing the Supply the Inflation decreases
4. Increase in prices indicates increase in inflation
5. Time temporal probability when inflation is already present and there is an increase in oil prices this increases the inflation in future states.