

# Inflation

- Increase in price level
- Consumer prices, other prices
- CPI, HICP
- All prices change the same????
- No, also changes in relative prices
- Changes in relative prices, eg price of energy rising faster than price of food
- Quantity theory of money... $M_s$  determines  $P$  level
- $MV=PT$

- $V$  stable therefore change in  $M^s$  causes change in  $P$  but  $Y$  determined by resources, therefore change must be in  $P$
- Change in  $M^s$  causes change in  $P$
- Classical theory
- Other theories, cost push, demand pull, imported
- Costs of inflation

- Shoeleather costs....resources used to reduce money holdings
- Menu costs....changing prices
- Relative price changes and allocation of resources
- Tax distortions, capital gains based on nominal values
- Uncertainty
- Redistribution of wealth

- Aggregate demand AS and AD models
- Demand increases faster than supply, price level increases
- Increase in cost of supply, wage increases, regulations
- Link.... Prices increase due to demand followed by wage compensation claims... leads to firms pushing up prices
- Imported inflation impact on living standards, terms of trade

- Target is around 2% price increase
- Price increase incentive to spend and invest
- Price decrease, discourages investment, may persuade consumers to delay purchases in anticipation of lower prices
- High inflation is undesirable

# Employment and unemployment

- Definition and measurement eg LFS and CP
- Main occupation vs worked in previous week
- Full time, part time
- Unemployment, claiming s/w payment vs actively looking for work
- Covid adjusted estimates

- Types of unemployment, already considered, cyclical, Keynesian, structural, frictional
- Full employment is never 0% unemployment
- Minimum wage, nature and impact
- Underemployment, many newspaper sellers, unofficial car parking attendants

- Balance of payments
- Business with RW
- Goods, services, financial flows, investment, borrowing
- Imports exports
- Different accounts merchandise trade, current account, capital account
- Exchange rate



- Euro
- Euro vs Dollar, Yen
- Exchange rate regimes
- Fixed, flexible/floating
- S and D in foreign exchange markets
- Impact on competitiveness of exports and imports

- Purchasing power parities
- Measurement and determinants