**Inflation: Definitions, Kinds, and Causes of Inflation**

**Some of the popular definitions of inflation given by different management gurus are as follows:**

1. According to **Coulborn** inflation can be defined as,

“too much money chasing too few goods.”

1. According to **Parkin and Bade,**

“Inflation is an upward movement in the average level of prices. Its opposite is deflation, a downward movement in the average level of prices. The boundary between inflation and deflation is price stability.”

1. According to **Samuleson-Nordhaus,**

“Inflation is a rise in the general level of prices.”

1. In the words of **Peterson,** “The word inflation in the broadest possible sense refers to any increase in the general price-level which is sustained and non-seasonal in character.”
2. As per **Johnson**, “Inflation is an increase in the quantity of money faster than real national output is expanding.”

### **Kinds of Inflation:**

Inflation is usually categorized on the basis of its **RATE** and **CAUSES**. Here, we would study the types of inflation based on its rate.

**Broadly, inflation can be of three types based on its RATE, which are as follows:**

1. **Moderate Inflation:**

Takes place when the prices of goods and services rise at a single digit rate annually. Moderate inflation is also termed as creeping inflation. When an economy passes through moderate inflation, the prices of goods and services increase but at moderate rate.

However, the rate of increase in prices under this type of inflation varies from country to country. Moderate inflation is a type of inflation that can be anticipated; therefore, individuals hold money as a store of value.

**(b) Galloping Inflation:**

Refers to a type of inflation that occurs when the prices of goods and services increase at two-digit or three-digit rate per annum. Galloping inflation is also known as jumping inflation. In the words of Baumol and Blinder, “Galloping inflation refers to an inflation that proceeds at an exceptionally high.”

Galloping inflation has adverse effect on middle and low income groups in the society. As a result, individuals are not able to save money for future. This kind of situation requires strict measures to control inflation.

**(c) Hyperinflation:**

Occurs when the rate of increase in prices is extremely high or out of control. In other words, hyperinflation takes place when the increase in prices is more than three-digit rate annually. Hyperinflation takes place when there is an unrestricted increase in the supply of money in the market.

This leads to a situation of imbalance in the supply and demand of money. Consequently, money loses its real worth at a rapid rate, which, in turn, leads to an increase in prices. The economic condition of Germany in 1922 and 1923 is the best example of hyperinflation. Apart from this, in 1989 and 1991, Argentina, Brazil, and Zimbabwe were also striving hard to overcome hyperinflation.

**Depending upon the specific CAUSES, three types of inflation have been distinguished:**

#### **Demand-Pull Inflation:**

This represents a situation where the basic factor at work is the increase in aggregate demand for output either from the households or the entrepreneurs or government organised. The result is that the pressure of demand is such that it cannot be met by the currently available supply of output.

If, for example, in a situation of full employment, the government expenditure or private investment goes up, this is bound to generate an inflationary pressure in the economy. Keynes explained that inflation arises when there occurs an inflationary gap in the economy which comes to exist when aggregate demand for goods and services exceeds aggregate supply at full-employment level of output.

Basically, inflation is caused by a situation whereby the pressure of aggregate demand for goods and services exceeds the available supply of output (both being counted at the prices ruling at the beginning of a period). In such a situation, the rise in price level is the natural consequence.

### **Cost-Push Inflation:**

We can visualize situations where even though there is no increase in aggregate demand, prices may still rise. This may happen if there is initial increase in costs independent of any increase in aggregate demand.

**The four main autonomous increases in costs which generate cost-push inflation have been suggested:**

1. Oil Price Shock

2. Farm Price Shock

3. Import Price Shock

4. Wage-Push Inflation

**Cost-Push inflation is also called supply-side inflation**

### **Causes of Inflation:**

Generally, inflation takes place in an economy when demand for goods and services exceeds the supply of output. Therefore, causes of inflation have two sides, the demand side and supply side.

**The various causes of inflation are as follows:**

1. **Increase in demand:**

**Takes place due to the following factors:**

i. Increase in money supply

ii. Increase in disposable income

iii. Increase in expenditure on investment and consumption goods

iv. Increase profit-making capacity of producers and retailers

v. Increase in foreign demand and exports

vi. Increase in population

1. **Constant supply of output:**

**Occurs due to the following factors:**

i. Lack of capital equipment

ii. Lack of factors of production, such as trained labor, raw materials, and inefficient management

iii. Increase in exports to get foreign currency

iv. Decrease in imports due to various reasons, such as war or restriction on imports

v. Increase in restrictive trade practices to get advantage from rise in price in future

vi. Prolonged industrial unrest.