B.A.2nd Sem

Paper: Introductory Macro Economics

Unit 3: Inflation and its social costs; hyperinflation.

Question 1: What is Inflation?

Ans: Inflation means a condition which produces a rising trend in the general price level in the economy. It is the constant rise in the general level of prices where a unit of money buys less than it did in previous periods.

Question 2: What are the different types of inflation?

Ans: Different names have been given to inflation depending upon the different situation. They are as follows-

1. **Creeping inflation**: This is a mild type of inflation and generally not considered as dangerous from the point of view of the economy. It is considered as a tonic for underdeveloped country. Continues rise in prices to the extent of 10 percent per decade or about one percent per year reflect the state of creeping inflation.
2. **Walking inflation**: When the rate of increase of price is more prominent as compared to the creeping inflation is considered as walking inflation. When the annual rate of rise in prices is in the range of more than 3 and less than 4 percent, it is called walking inflation.
3. **Running inflation**: The rate increase of price level acquires greater speed and rapidly under running inflation. Roughly if the rate of continuous rise in price is about 10 percent per year, it may be treated as running inflation.
4. **Galloping or hyper inflation**: It is the extreme form of inflation, when the price rises at an abnormal rate from year to year. In fact, this is the most dangerous type of inflation. The galloping or hyper inflation is that where the rate of increase in prices are more than 100 percent per year.

Question: 3What are the characteristics of Inflation?

Ans: The characteristics of inflation are given below-

1. The increase in general price level is prime character of inflation.
2. Inflation is purely a monetary phenomenon, because increase in money supply is the prime cause of inflation.
3. Absence of self control system is another characteristic of inflation during continuous increase in price level.
4. Inflation is a dynamic economic problem. Inflation is observed at different stages of economic development of an economy.
5. True inflation takes place after the attainment of full employment in an economy.
6. Inflation occurs either both of excess demand and increase in production cost or any one of these.