University of Jijel

Departement of Economic Sciences

Module : English for Specific Purposes ***Teacher :Manel.A***

Level : M1_ Economics of Money and Banking ***Academic year :2023-2024***

INFLATION

In mainstream economics, the word “inflation” refers to a general rise in prices measured against a standard level of purchasing power. Inflation is measured by comparing two sets of goods at two points in time, and computing the increase in cost not reflected by an increase in quality. There are, therefore, many measures of inflation depending on the specific circumstances. The most well-known are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

The prevailing view in mainstream economics is that inflation is caused by the interaction of the supply of money with output and interest rates. Mainstream economist views can be broadly divided into two camps: the "monetarists" who believe that monetary effects dominate all others in setting the rate of inflation, and the "Keynesians" who believe that the interaction of money, interest and output dominate over other effects. Other theories, such as those of the Austrian school of economics, believe that an inflation of overall prices is a result from an increase in the supply of money by central banking authorities.

Related terms include: deflation, a general falling level of prices; disinflation, the reduction of the rate of inflation; hyper-inflation, an out-of control inflationary spiral; stagflation, a combination of inflation and poor economic growth; and reflation, which is an attempt to raise prices to counteract deflationary pressures.

If inflation is high in an economy, there are three main problems it can cause:

People on a fixed income (e.g. pensioners, students) will be worse off in real terms due to higher prices and equal income as before; this will lead to a reduction in the purchasing power of their income.

Rising inflation can encourage trade unions to demand higher wages. This can cause a wage spiral. Also if strikes occur in an important industry which has a comparative advantage the nation may see a decrease in productivity and suffer.

If inflation is relatively higher in one country, exports will become more expensive for other countries to purchase; this will create a deficit on the current account.

Measuring inflation is a question of econometrics, finding objective ways of comparing nominal prices to real activity. Each inflationary measure takes a "basket" of goods and services, then the prices of the items in the basket are compared to a previous time, then adjustments are made for the changes in the goods in the basket itself.

❖ ***Text Based Activities***

1. Mark the sentences as True (T) or False (F)/ :

– There is only one way to measure inflation.
– Four different economic schools are mentioned in the text.
– According to the Austrian school of economics, inflation is mainly caused by the activities of central banking authorities.
– If inflation is high, people on a fixed income will lose their purchasing power.
– Higher inflation in one country will make exports more expensive for other countries to purchase.
– Econometrics studies subjective ways of comparing nominal prices to real activity.

2. Match the words with the definitions :

3. inflation	a) the amount of goods or work produced by a person, machine, factory etc.
4. supply	b) a continuing increase in prices, or the rate at which prices increase
5. output	c) a reduction in the amount of money in a country's economy, so that prices fall or stop rising stagflation
6. deflation	d) the average or total value of a number of different goods or currencies

7. reflation	e) an amount of something that is available to be used
8. basket	f) the process of increasing the amount of money being used in a country in order to increase trade

3. Complete the sentences with the correct forms of the capitalized words in brackets:

Inflation is a steady rise in the average price and wage level. The rise in wages being high enough to raise costs of (1) __________ (PRODUCE), prices grow further resulting in a higher price of inflation and, finally, in an inflationary spiral. Periods when inflation rates are very large are referred to as hyperinflation.

The causes of inflation are rather complicated, and there are a number of theories explaining them. Monetarists, such as Milton Friedman, say that inflation is caused by too rapid increase in money supply and the (2) __________ (CORRESPOND) excess demand for goods.

Therefore, monetarists consider due (3) __________ (GOVERN) control of money supply to be able to restrict inflation rates. They also believe the high rate of (4) __________ (EMPLOY) to be likely to restrain claims for higher wages. People having jobs accept the wages they are being paid, the inflationary spiral being kept under control. This situation also accounts for rather slow increase in aggregate demand.

On the other hand, Keynesians, that is, (5) __________ (ECONOMY) following the theory of John M. Keynes, suppose inflation to be due to processes occurring in money circulation. They say that low inflation and unemployment rates can be ensured by adopting a tight incomes policy.

Incomes policies, though, monetarists argue, may temporarily speed up the (6) __________ (TRANSIT) to a lower inflation rate but they are unlikely to succeed in the long run.

4. Complete the sentences using the following words. Some words you do not need to use :

effect	**stagflation**	**methods**	**interest rate**	**supply**
inflation	**economy**	**increase**	**measure**	**Keynesian**

1. In the long run, __________ is generally believed to be a monetary phenomenon, while in the short and medium term, it is influenced by the relative elasticity of wages, prices and interest rates.
2. The question of whether the short-term effects last long enough to be important is the central topic of debate between monetarist and __________ schools.
3. A great deal of economic literature concerns the question of what causes inflation and what __________ it has.
4. A small amount of inflation is often viewed as having a positive effect on the __________ .
5. Inflation is a general __________ in prices in a country.
6. There are a number of __________ that have been suggested to stop inflation.