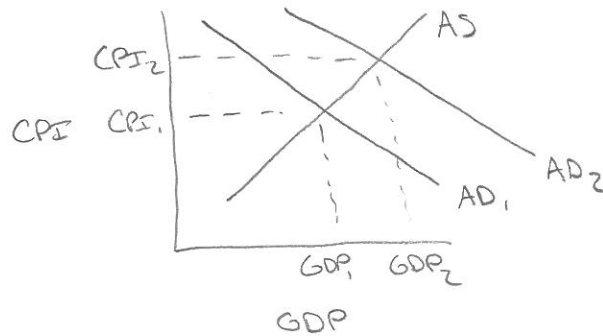


12.3: Causes of Inflation

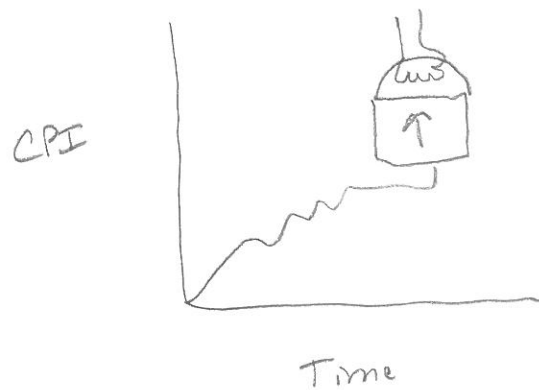
- 1.) demand-pull inflation - results when demand rises faster than supply and there is a lag until supply catches up with demand (shortage)



2 Causes of Demand-Pull Inflation

- 1.) consumers demand more goods \rightarrow producers slow to respond \rightarrow prices rise

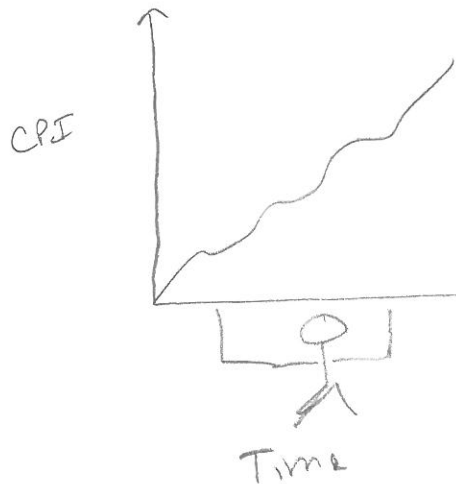
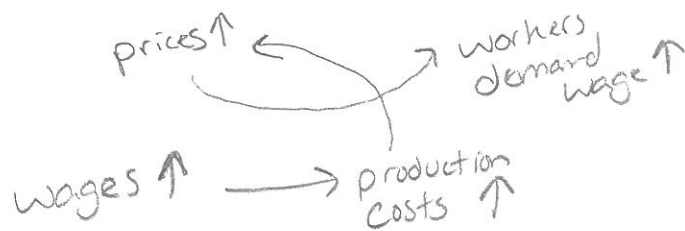
- 2.) gov. prints more money \rightarrow consumers have more to spend \rightarrow prices rise



- 2.) Cost-push inflation - results when increases in the costs of production push prices up

2 Causes of Cost-Push Inflation

- 1.) supply shocks - sharp increases in price of raw materials
2.) wage-price spiral - cycle in which increased wages push prices up



Producer Price Index (PPI) - stat that measures the level of prices that producers pay (wholesale prices)

- * calculated similar to CPI
- * inflation rate can also be calculated from changes in CPI
- * inflation tends to hit wholesale first, then producers pass those costs on to consumers in the form of higher retail prices

PPI ↑, then CPI ↑

Types of Inflation

- inflation is categorized according to its level per month

< 0% - deflation

0-1% - negligible inflation

1-3% - moderate inflation

creeping inflation - if moderate inflation persists

for several months

3-50% - galloping inflation

> 50% - hyperinflation