

DEFLATION

This is the continuous fall in the price level of goods and services in a country as a result of decrease in the volume of money in circulation used in the exchange of goods and services

CAUSES OF DEFLATION

1. Insufficient demand
2. Fall in the price of goods and services
3. Reduction in profit
4. Decrease in investment
5. It encourages export
6. It discourages import

EFFECT OF DEFLATION

1. Fall in the price of goods and services
2. Export is cheaper in the period of deflation
3. Fixed income earners gain
4. Money gets more value
5. Business men makes less profit
6. Decrease in investment as there is fall in savings

How to control deflation

1. Reduction in income tax
2. Deficit budget helps to pump more money in the economy

3. Reduction of bank rate encouraging commercial banks and other financial institution borrow money from central bank, which will aid they to lend money to the public
4. Increase in wages will help increase the purchasing power of the people
5. The use of OMO used by central bank to buy securities thereby making more money available to them to lend to the public