INFLATION

Inflation is the persistent and sustained rise in the general price level which is not commensurate to increase in production. A general fact during a period of inflation is a continuous fall of the value of money in general price levels of good and service in an economy over period of one year.

One of the measurement of inflation is consumer price index this is the main determinant of the level of inflation in a country because it measure the change in the price level of consumer goods

CPI= Current year price /previous year price * 100

TYPES OF INFLATION

Ordinary inflation: this is a gradual and intermittent rise in the price of goods and services caused by under production, hoarding and increase in money in circulation

Persistent inflation : this is continuous sharp and not easy to control rise in the price of goods and services which occurs mainly as result of large volume of money in circulation far more than the available goods and services

Persistent inflation is divided into the following:

1. **Demand pull inflation :** Demand pull persistent inflation caused by excessive demand without a corresponding increase in supply of supply of goods and services
   Causes of demand pull inflation

2. **Cost pull persistent inflation:** this is the rise in prices of goods and services caused by increase in the cost of factors of production, increase in demand of wages by workers and soon
3. **Galloping or hyper-inflation:** war, deficit budget and soon are the cause of this inflation as price goods and services continues to rise at a fast rate and money ceases to function:
4. **Imported inflation:** this type of inflation occurs whenever raw materials and finished goods are imported into a country at a very high cost.

CAUSES OF INFLATION

1. When demand is greater than supply
2. When the production of goods reduces
3. During war
4. Increase in the cost of production
5. Monopoly (when you have one producer)
6. Hoarding (reducing the quantity of goods available irrespective of the level of production
7. Reduction of import

8. Over reliance of foreign goods
9. Natural disaster

Economic effect of inflation

1. Fixed income earners will suffer: this is because salary is constant and price of things are increasing
2. Savings is discouraged : people spend more on goods and nothing is left for savings
3. Fall in the standard of living : the money available cannot purchase the goods required
4. It discourages investment: as saving is very difficult and reduction in the value of money have adverse effect on investment
5. Consumers suffer: this is as a result of rise in the price level of goods and services.
6. Escalation of hunger: there is increase in hunger as things are expensive.
7. Debtors will gain : debtors pay money that has less value
8. Creditors gain : as the value of money they receive is higher than what was given out
9. High profit

HOW TO CONTROL INFLATION

1. Increase in agricultural productivity
2. Provision of storage facilities
3. Checking the activities of hoarders
4. Establishing many industries
5. Import substitution strategy
6. Effective price control board
7. Reduction of import and excise duty