

Nalanda Open University

Department of Economics

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- Course – BA Economics (Part –II)
- Paper – IV (Money Banking and Public Finance)
- Topic – Inflation (Types and Causes)

Definition of Inflation

- Inflation is state in which the value of money is falling, i.e. prices are rising. By Prof. G. Crowther
- Inflation is an issue of too much currency. By Prof. Hawtrey
- Inflation is too much currency in relation to the physical volume of business being done. Prof. Kemmerer

Types of Inflation

- Demand Inflation (Demand Pull Inflation)- An increase in the price due to increase in demand at constant supply.
- Cost Inflation (Cost Push Inflation)- An increase in the price due to increase in supply at constant demand.

Other Types of Inflation

- Creeping Inflation
- Walking Inflation
- Running Inflation
- Galloping Inflation
- Open and Repressed Inflation
- Comprehensive and Sporadic Inflation
- Full and Partial Inflation

Causes of Inflation

- Increase in Demand related causes of inflation
- Decrease in Supply related causes of inflation

Increase in Demand related causes of inflation

- Increase in public expenditure
- Increase in private expenditure
- Increase in export of the country
- Reduction in taxation
- Payment of internal debts and arrears
- Rapid growth of population
- Deficit financing
- Cheap money policy

Decrease in Supply related causes of inflation

- Factory lockout
- Shortage in production in manufacturing units
- Natural calamities
- Hoarding by wholesalers and traders
- Hoarding by consumers
- Operation of Laws of Diminishing Returns
- Industrial Disputes