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Sub: Economics
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# Chapter 13 – Inflation

Good Morning Students
This lesson is for class 10th for the subject of 'Economics'. The topic for today is 'Meaning, Types and effects of Inflation' which is covered in chapter 13 of your book of Economics

This lesson is being submitted to you on 4.11.24.

Inflation :-
"Inflation is commonly understood to be a situation in which prices of goods and services persistently rise at a fast pace".

It is important to note here that inflation refers to a state of rising price and not a state of high prices. Moreover every type of rise in price level is not called inflation. A substantial rise in price or rise in price at fast rates is called Inflation
Another important point to note here is that one time rise in price level does not mean inflation. It is persistent (continous) rise is price level which is

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called Inflation.

Features of Inflation:-

(1) Inflation is a Monetary Phenomenon:- when money supply in the economy exceeds its normal productive capacity, it leads to persistent rise in prices Inflation occurs when the volume of money increases faster than the available supply of goods and services in the economy

(2) Inflation is a post-full employment phenomenon:- Rising prices in all situations cannot be called inflation. True inflation. True inflation starts only after full employment. After post employment, if there is an increase in the demand for goods and services in the economy, there is no corresponding increase in their output. As a result, prices start rising.

(3) Inflation means rise in the overall price level:- It refers to increase in prices of many goods and services simultaneously. However, this does not mean that all prices rise by the same amount during inflation. Prices of some commodities may even fall during inflation. But the overall price level rises during

inflation. Like in recent years prices of food grains has increased but price of mobile data has decreased.

Now we will discuss Types of Inflation :-

(1) Creeping Inflation!
When the rise in prices is very slow like that of a creeper, it is called creeping inflation. In terms of speed, prices rise about 2 percent annually which is regarded safe and essential for economic growth. An increase in prices of goods and services generally leads to increase in profit margin. This encourages producers to undertake more investment. As a result, the level of output and employment increases in the economy. Inflation thus, keeps the economy away from stagnation.

(2) Walking or Trotting Inflation!-
When prices rise moderately and the annual inflation rate is single digit, it is called Walking Inflation. In other words, the rate of rise in prices is in the intermediate range of 3 to 6 percent per annum or less than 10 percent. Walking inflation is a warning signal

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for the government to control it before it turns into running inflation.

(3) Running Inflation:
When prices rise rapidly at the rate of around 10 to 20 percent per annum, it is called running inflation. Such an inflation affects the poor and middle class people adversly. Their economic condition becomes worse during the periods of inflation.

(4) Hyper Inflation:
When prices rise very fast at double or triple digit rates from more than 20 to 100% per annum or more, it is usually called 'Hyper Inflation' or 'Galloping Inflation'. Such a situation brings total collapse of monetary system because of the continous fall in the purchasing power of money.

Demand Pull and Cost Push Inflation
Broadly speaking, there are two main causes of Inflation. First, increase in aggregate demand for goods and services and second, increase in cost of production. Inflation originating from demand factor is refered as Demand Pull Inflation and Inflation that originate from cost factors is known as Cost Push Inflation

"Demand pull inflation refers to a situation in which prices rise because the demand for goods and services exceeds their total supply available at current prices. It is also known as 'Excess Demand Inflation'".

Causes of Demand Pull Inflation:-
(1) Increase in Money Supply.
(2) Increase in Disposable Income.
(3) Increase in Population
(4) Increase in Export Demand.
(5) High Rate of Investment.
For explanation refer to page 134.

6. Cost Push Inflation!
Prices do not always rise due to rise in aggregate demand. Sometimes prices rise due to increase in cost of factors of production. "Inflation caused by rise in cost factor such as wages, rent, interest, materials etc is called as Cost Push Inflation".

Causes of Cost Push Inflation:-

(1) Rise in Wages.
(2) Increase in Price of Basic Materials
(3) Higher Taxes
(4) Oil Price Hike and Global Inflation.
(5) Administrative Price
For explanation refer to page number 135 of your book.

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## Effects of Inflation:-

Inflation has its wide ranging effects on economic, social, moral and political life of the country. We will discuss the effects of inflation under the following two heads

(i) Effects on Production (ii) Effects on Distribution

1. Effects on Production:-

A moderate rise in prices (i.e creeping inflation) has a favourable effect on production, particularly when there are under-employed resources in the country. Rising prices increase the profit expectations within the business community. It is because of the fact that the prices increase more rapidly than the cost of production. Businessmen are induced to invest more and, as a result, output and employment increase. But there is a limit to it. Once the stage of full employment is reached in the economy, a further rise in prices will not encourage production. Therefore, till the stage of full employment is reached, moderately rising prices prove beneficial for production.

But a state of running or hyper inflation creates uncertainty in the economy and proves very harmful to production. The evil effects of inflation are as follows:-

(1) Misallocation of Resources.

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(2) Reduction in Saving.
(3) Discourages Foreign Capital
(4) Hoarding
(5) Fall in Quality.
For explanation refer to page 234 of your book

(2) Effects on Distribution:-
Inflation redistributes income because prices of all factors do not rise in the same proportion. Generally, it favourably affects the people with flexible incomes, like business-men, traders, merchants, speculators, etc. It is because of the fact that prices rises faster than cost of production.
On the other hand, fixed income groups such as workers, salaried persons, interest and rent earners feel uncomfortable during inflation because their incomes do not increase as fast as the prices. It, thus, increases the economic burden of those sections of the society which are not in a position to bear it.
The effects of inflation on different sections of the society are discussed below:-
(1) Debtors and Creditors (2) Wages and Salaried Class
(3) Business Community (4) Investors
(5) Farmers.
For Explanation refer to page 235 of your book.
Write the answers of following questions
(1) How does inflation affect farmers and creditors.
(2) Explain the causes of Cost Push Inflation
(3) Define Hyper Inflation.
4. What is Demand Pull Inflation?

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