

## University of Tlemcen

### Inflation

**Inflation** refers to an economic situation in which the prices of goods and services increase above the normal general price level. This phenomenon has been an increasingly important characteristic of the world economy.

Economics have distinguished two major causes of inflation "**cost push**" refers to situation which is due primarily to a rise in prices caused by increases of the cost of production .This may happen because of rising raw material prices or a wage increase in excess of productivity increase , resulting from trade union pressures.

**Demand pull** describes a situation which is due to an increase in the money supply, for example the purchasing power exceeds the productive capacity. This may happen because of extra incomes.

It is usual to identify two distinct types of inflation: **creeping** inflation and **galloping** inflation.

**Creeping inflation** refers to an inflationary situation characterized by a gradual rise in the general price level. (2 or 3 percent per year).

**Galloping inflation**, as its name implies refers to an inflationary situation characterized by a fast increase in the general price level. (25 percent per year). When prices rise rapidly, money, loses its real value and people lose confidence in the monetary system.

❖ **Answer the following questions from the text. Use your ownwords as much as possible.**

- 1- What is an inflationary situation?
- 2- What is meant by costpush?
- 3- What is meant by demand pull ?
- 4- In what terms can we distinguish between creeping and galloping inflation?
- 5- Why do people lose confidence in the monetary system?

❖ **Choose A or B which is true according to the text.**

❖ **1- inflation refers to :**

- A – An increase in the general price level in an economy.
- B- The phenomenon of increasing the costs of production of goods and services.

**2- Cost push refers to a situation which could be due to:**

- A- An increase in the costs of raw materials.
- B- Trade union pressures.

**3- Demand pull describes a situation caused by an:**

- A- An increase in the money supply.
- C- Excess in the purchasing power.

**4 – Creeping inflation refers to a:**

- A- Slow rise in the general price level.
- B- Permanent rise in the general price level.

**5 – Galloping inflation refers to a:**

- A- Rapid rise in the general price level.
- B- Temporary rise in the price level.

❖ Calculate the rate of increase, the rate of inflation of the following products and say what type of inflation is it?

	2010	2011	Rate of increase	Rate of inflation	Type of inflation
Coffee	25	36	44 %	144 %	Galloping
Petrol	2.25	2.31			
Bread	0.82	0.98			
Meat	80	100			
Sugar	1.18	1.21			

Rate of increase =  $\frac{NP - FP}{FP}$

FP

Rate of inflation = Rate of increase + 100 %.

NP: New price.

FR: Former price.

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**GOOD LUCK**