



Daily current affairs

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Terminologies related to inflation

Bottleneck Inflation

This inflation takes place when the supply falls drastically and the demand remains at the same level. Such situations arise due to supply-side accidents, hazards or mismanagement which is also known as 'structural inflation'. This could be put in the 'demand-pull inflation' category.

Inflationary Gap

The excess of total government spending above the national income is known as the inflationary gap. This is intended to increase the production level which ultimately pushes the prices up due to extra-creation of money during the process.

Deflationary Gap

The shortfall in total spending of the government over the national income creates deflationary gap in the economy. This is a situation of producing more than the demand and the economy usually heads for a general slowdown in the level of demand. This is also known as the output gap.

Inflation Tax

Inflation erodes the value of money and the people who hold currency suffer in this process. As the governments have authority of printing currency and circulating it into the economy, this act functions as an income to the governments.

Inflation Spiral

An inflationary situation in an economy which results out of a process of wage and price interaction 'when wages press prices up and prices pull wages up is known as the inflationary spiral. It is also known as the wage-price spiral. This wage-price interaction was seen as a plausible cause of inflation in the year 1935 in the US economy, for the first time.

Phillips Curve

It is a graphic curve which advocates a relationship between inflation and unemployment in an economy.

Reflation

Reflation is a situation often deliberately brought by the government to reduce unemployment and increase demand by going for higher levels of economic growth

Stagflation

A situation in an economy when inflation and unemployment both are at higher levels

Skewflation.

A rising cost of living (inflation) coupled with falling asset prices such as houses, Gold and Equities (deflation). opposite of stagflation, but not inflation or deflation.

GDP Deflator

This is the ratio between GDP at Current Prices and GDP at Constant Prices.

Base Effect

It refers to the impact of the rise in price level in the previous year over the corresponding rise in price levels in the current year.

WPI

The wholesale price index is an index that measures and tracks the changes in the price of

goods in the stages before the retail level.

CPI

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

