INFLATION CONCEPTS

- Match each term with the correct definition:

1. A situation where wages and prices continuously push each other higher.
2. The general increase in prices of goods and services over time.
3. Extremely rapid and uncontrollable price increases.
4. Adjusting wages or contracts to keep up with inflation.
5. The practice of setting an explicit inflation target, often around 2%.
6. A monetary policy tool to reduce inflation by controlling the money supply.
7. A sustained drop in the general price level.
8. An increase in demand for goods/services that exceeds supply, driving up prices.
9. An economic period of high inflation and high unemployment.

10. Expectations about future inflation, influencing current behavior.
11. Inflation caused by rising costs of production.
12. The nominal interest rate adjusted for inflation.
13. The unintentional movement of taxpayers into higher tax brackets due to inflation.
14. A deliberate downward adjustment in a country's currency value.
15. Inflation measured without volatile food and energy prices.

- Inflation rate __
- Hyperinflation __
- Deflation __
- Stagflation __
- Cost-push inflation __
- Demand-pull inflation __
- Monetary policy __
- Inflation targeting __
- Indexation __
- Wage-price spiral __
- Real interest rate __
- Devaluation __
- Inflation expectation __
- Bracket creep __

- Read the scenarios and identify which inflation concept they represent:

1. A country's currency loses its value rapidly, and prices double every day.
2. A central bank raises interest rates to reduce inflation.
3. A worker receives a salary increase but finds their purchasing power hasn't changed due to higher prices.
4. Rising oil prices lead to increased transportation costs, causing higher prices for goods.
5. Consumers are willing to pay more for products because their incomes have risen, but supply remains unchanged.

- Answer these questions:

1. How does inflation targeting help stabilize an economy?
2. Why might cost-push inflation be harder to control than demand-pull inflation?
3. How do inflation expectations affect business decisions and consumer behavior?
4. How can governments address stagflation effectively?