

## Introduction:

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods.

## Definition:

Inflation is often defined in terms of its supposed causes. Inflation exists when money supply exceeds available goods and services. Inflation may be defined as **'a sustained upward trend in the general level of prices'** and not the price of only one or two goods.

G. Ackley defined inflation as:

**"A persistent and appreciable rise in the general level or average of prices."**

It is inflation if the prices of most goods go up. However, it is difficult to detect whether there is an upward trend in prices and whether this trend is sustained. That is why inflation is difficult to define in an unambiguous sense.

## Understanding Inflation:

As prices rise, a single unit of currency loses value as it buys fewer goods and services. This loss of purchasing power impacts the general cost of living for the common public which ultimately leads to a deceleration in economic growth. The consensus view among economists is that sustained inflation occurs when a nation's money supply growth outpaces economic growth.

**"Inflation is the crabgrass in your savings."**

## Reasons of Inflation:

The main **reason** for **inflation** of any country is there is inverse relationship between demand and supply. According to different economist view that increase in prices of things will indicate the **inflation**. In other words, **inflation** means expansion of money supply.

Whenever **dollar** price increases, it brings inflation. Inflation & exchange rate are two main factors of macro-economics. Inflation is a rise in the general level of prices of goods & services in an economy by the passage of time. Exchange rate is very important factor in economic which impact imports & exports of country.

A **depreciation of the exchange rate** increases the price of imports and reduces the foreign price of a country's exports. If consumers buy fewer imports, while exports grow, AD in will rise – and there may be a multiplier effect on the level of demand and output.

Natural disasters can also drive prices higher. For example, if a hurricane destroys a crop such as corn, prices can rise across the economy since corn is used in many products.

## How to reduce Inflation?

As demand for a particular good or service increases, the available supply decreases. When fewer items are available, consumers are willing to pay more to obtain the item—as outlined in the economic principle of supply and demand. The result is higher prices due to demand. Inflation is a period of rising prices. The only way to reduce inflation is monetary policy – in particular, raising interest rates reduces demand and helps to bring inflation under control. Other policies to reduce inflation can include tight fiscal policy (higher tax), supply-side policies, wage control, appreciation in the exchange rate and control of the money supply.