УДК 336.748.12

Інйямах Н. – ст. гр. ІБМ-31

Тернопільський національний технічний університет імені Івана Пулюя

INFLATION PHENOMENON AND CONTROL OVER IT

Науковий керівник: ст. викл. Мариненко Н. Ю.

Inflation depicts an economic situation where there is a general rise in the prices of goods and services continuously. When there is inflation, the currency loses purchasing power. In the definition of inflation, two key words must taken into serious consideration. First, is aggregate or general, which implies that the rise in prices that constitutes inflation must cover the entire basket of goods in the economy as distinct from an isolated rise in the prices of a single commodity or group of commodities. Second, the rise in the aggregate level of prices must be continuous for inflation to be said to have occurred. The aggregate price level must show a tendency of a sustained and continuous rise over different time periods. Inflation can be grouped into four types, according to its magnitude: 1) creeping inflation (this occurs when the rise in price is very slow – annual rise in prices of less than 3 per cent. It is regarded safe and essential for economic growth); 2) walking inflation (occurs when the rate of rise in prices is in the intermediate range of 3 to less than 10 per cent. Such inflation is a warning signal for the government to control it); 3) running inflation (when prices rise rapidly at the rate of 10 to 20 per cent per annum. This type of inflation has tremendous adverse effects on the poor and middle class. Its control requires strong monetary and fiscal measures); 4) hyperinflation (occurs when prices rise very fast at double or triple digit rates. Prices could rise many times every day. Such a situation brings a total collapse of the monetary system). There are numerous causes of inflation based of different schools of thought. Keynesian economic theory proposes that changes in money supply do not directly affect prices. There are three major causes/types of inflation based on the keynesians view: 1) demand-pull: inflation is caused by increases in aggregate demand due to increased private and government spending, etc.; 2) cost-push: is caused by a drop in aggregate supply (potential output). This may be due to natural disasters, or increased prices of inputs; 3) built-in: it's often linked to the "price/wage spiral"and involves workers trying to keep their wages up with prices (above the rate of inflation), and firms passing these higher labor costs on to their customers as higher prices, leading to a "vicious circle". Monetarists believe the most significant factor influencing inflation or deflation is how fast the money supply grows or shrinks. They consider fiscal policy, or government spending and taxation, as ineffective in controlling inflation. Monetarists assert that the empirical study of monetary history shows that inflation has always been a monetary phenomenon. Inflation can be controlled by increasing the supplies and reducing money incomes in order to control aggregate demand. The following methods to be mentioned helps control inflation rates the world over. *Monetary policy*: Central banks can affect inflation to a significant extent through setting interest rates and through other operations. High interest rates and slow growth of the money supply are the traditional ways through which central banks fight or prevent inflation, though they have different approaches. Monetarists emphasise keeping the growth rate of money steady, and using monetary policy to control inflation (increasing interest rates, slowing the rise in the money supply). The primary objective of monetary policy is to ensure price stability. *Keynesians* emphasise reducing aggregate demand during economic expansions and increasing demand during recessions to keep inflation stable. Control of aggregate demand can be achieved using both monetary policy and fiscal policy (increased taxation or reduced government spending to reduce demand).