Shoolini University

PRINCIPLES OF ECONOMICS

Lecture 43 INFLATION: DEMAND PULL & COST PUSH

November, 2015

TOPICS TO BE DISCUSSED

1. **Inflation**
   - Demand Pull Inflation
   - Cost Push Inflation

INFLATION

- Inflation refers to an increase in overall level of prices in the economy
- Inflation rate is the annual percentage change in the aggregate price level
- Inflation leads to decreased purchasing power and high cost of living

Example: Rs. 100 does not buy as much as it could buy 10 years ago because prices have increased

INFLATION

- A process where the general price level rises and value of money depreciates.

- There are two kinds of inflation:

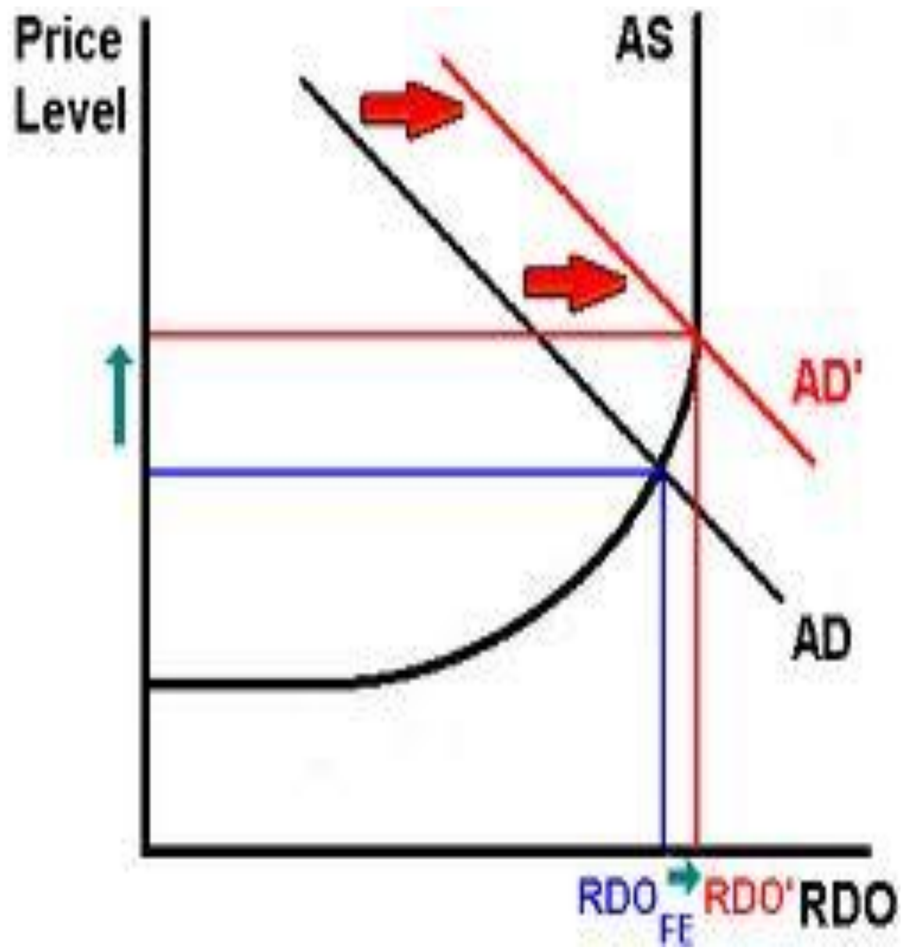
➢ Demand Pull Inflation

➢ Cost Push Inflation

DEMAND PULL INFLATION

Demand pull inflation- caused by excess of aggregate demand in the economy.

Demand side factors are responsible for Demand Pull Inflation



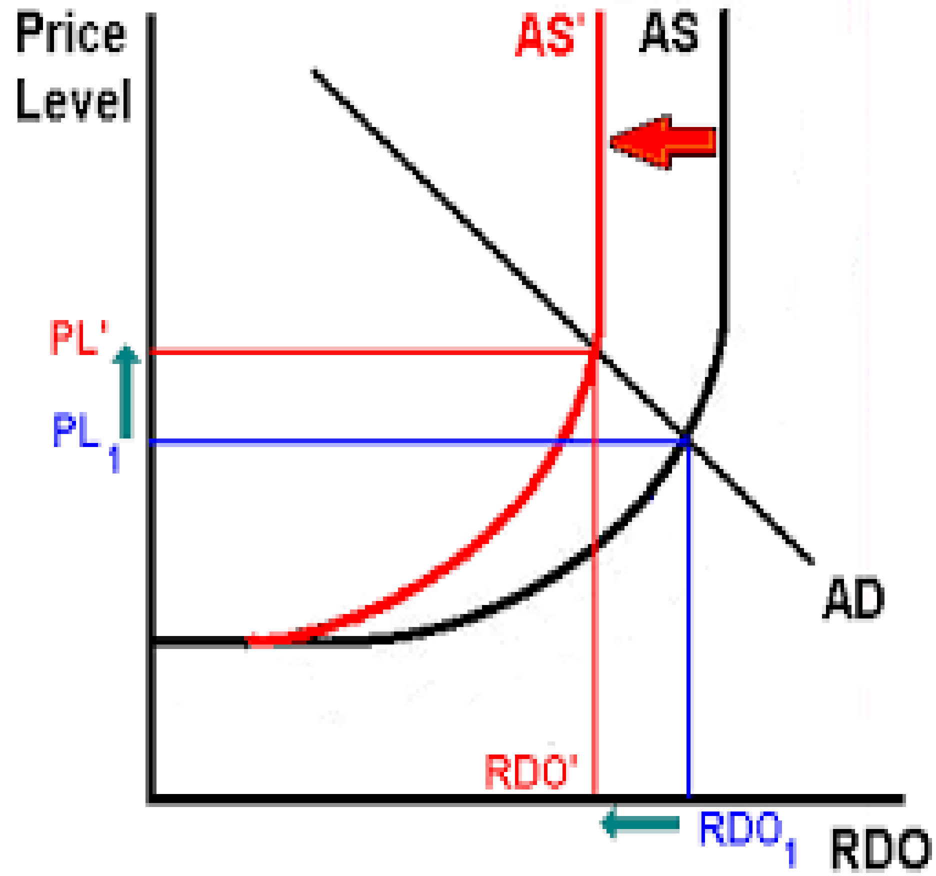
DEMAND PULL INFLATION

Demand pull inflation- Caused by:

- ➢Increase in money supply: Quantity of money circulating in an economy.
  - •Increased money supply means, increase in purchasing power and hence, aggregate demand going up
- ➢Increase in government spending: Expenditure on public amenities
- ➢Increase in exports

COST PUSH INFLATION

- Cost push inflation arises because of supply side factors
- It is caused by shortage of supply of goods & services in the economy



COST PUSH INFLATION

Cost push inflation is caused by shortage of supply of goods & services due to:

- Increase in money wage rate
- Increase in prices of raw materials.

CONCLUSION

- Inflation caused by excess aggregate demand over aggregate supply, is called demand pull inflation

- Inflation caused by shortage of aggregate supply over aggregate demand, is called as cost push inflation

- Inflation leads to depreciation of money value

Thank You ☺