INFLATION

Inflation refers to the persistent increase in the general price level in an economy (over a given period).

Inflation is characterized by a continuous rise in the general price level or where too much money is chasing too few goods (the quantity of money rises more rapidly than the level of output). Whenever there is inflation there is a continuous rise in the general price level over a given period, persistent fall in the value of money and expansion in expenditure especially on consumer goods.

Classification of inflation (forms/types)

A) According to the rate/ degree of intensity(speed)

1. Mild inflation/creeping/gradual inflation

Refers to the persistent increase in the general price level at a very slow rate. It rises at an annual rate of less than 3 % and sometimes unnoticeable by the public. This kind of inflation is good because it stimulates economic growth.

2. Hyper/Galloping/Runaway inflation

Refers to the persistent increase in the general price level at a very fast/high rate. It rises from double digit to triple digit rates ranging from 20—100% or more. The price increase takes place within hours, days or weeks and there is loss of confidence in money and this has to be addressed with significant changes in the monetary system.

Suppressed inflation versus open inflation

(a) Open inflation

Refers to the persistent increase in the general price level arising from the free operation of price mechanism (market forces of demand and supply) without (direct) government interference/intervention.

(b) Suppressed inflation/controlled/ repressed inflation/incipient inflation

Refers to a situation where demand exceeds supply but the effect of this on prices is minimized by strong government intervention/controls such as price controls, rationing, and monetary controls. For example the government sets maximum prices for essential commodities.

Note: Such measures just suppress inflation and it may become open immediately they are removed.

B) According to causes/theories

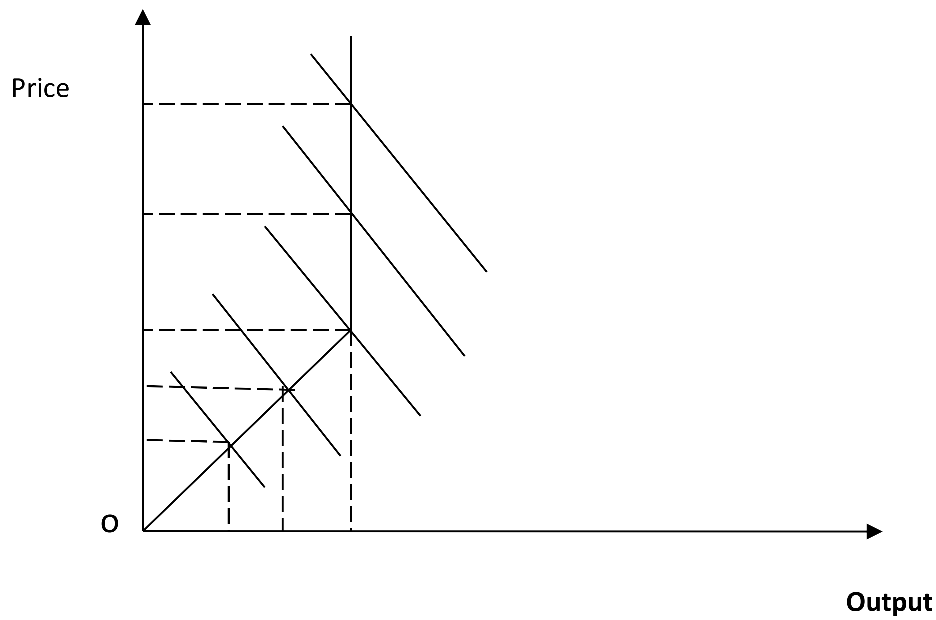
These types of inflation according to causes also form what we call theories of inflation.

Demand—pull inflation (Excess demand inflation)

Refers to the persistent increase in the general price level which arises when aggregate demand persistently exceeds aggregate supply in an economy at full employment level.

As such prices rise following increased aggregate demand leading to a situation where 'too much money is chasing too few goods'. According to Keynes this is considered to be the major cause of inflation and unemployment.

Illustration of demand—pull inflation



From the above diagram an increase in aggregate demand from AD_1 to AD_3 is accompanied by higher output as well as higher prices. However increase in aggregate demand beyond AD_3 involves no increase in output but only rising price.

Causes of demand—pull inflation

a) Excessive printing and issuance of currency/money supply
b) Excessive credit creation by commercial banks
c) Excessive government expenditure
d) Excessive exportation of essential goods (increasing volume of exports).
e) Reduced volume of imports.
f) Excessive/increased inflow of income from abroad.
g) Rapid/high population growth rate/increase.
h) Rising wages due to trade union pressures and other factors—leading to increased incomes of individuals.
i) Reduced savings / high marginal propensity to consume.
j) Rural-urban migration
k) Breakdown of infrastructure (such as roads).

l) Reduced in direct taxes by government.

Solutions to demand pull inflation

- Reduction in government expenditure.
- Increasing direct taxation.
- Controlling the printing and issuance of currency.
- Increasing imports from cheaper sources
- Controlling incomes of individuals.
- Improving the investment climate such as provision of tax holidays.
- Setting maximum price legislation/ setting price controls such as maximum price.
- Developing of infrastructural facilities.
- Controlling the population growth rate such as through family planning.

Cost-push inflation

Refers to the persistent increase in the general price level arising from rising cost of production in the economy.

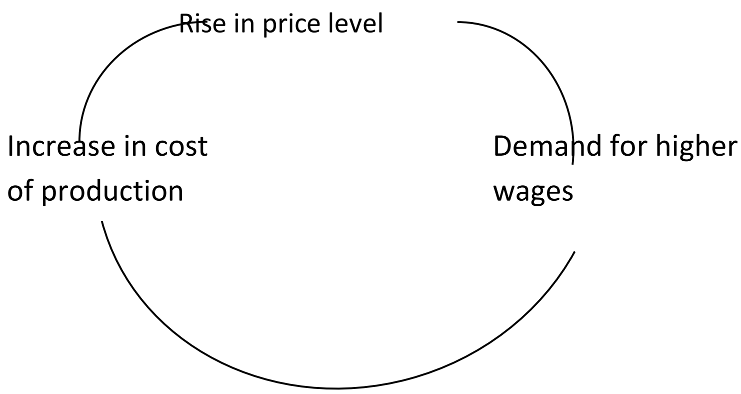
Causes of cost—push inflation

a) Rising costs/prices of raw materials (due to scarcity).
b) Rising wages (of labour) due to trade union pressures / increasing labour costs.
c) Rising costs of transport
d) Rising costs of fuel/ fuel prices
e) Rising levels of taxation by government.
f) Rising costs of borrowing/ rising interest rates on loans/ capital.
g) Increasing costs of importing machines
h) Increasing advertisement costs
i) Rising costs of storage of raw materials and finished goods.

Note:

- **Profit—push inflation**
  Refers to the persistent increase in general price level caused by producers' desire to increase their profit-margin**.**
  It is another cause of cost-push inflation in which firms raise their prices for products to earn higher profits (*and offset the rising labour costs*).
- **Inflationary spiral (*price-wage inflation and wage—price inflation)***
  Refers to a situation in which price rises cause demand for higher wages, which increases the cost of production and this leads to further price increases.

Illustration of inflationary spiral



Note: Price-wage theory/**price—wage inflation**

Refers to a type of inflation which occurs when an increase in commodity prices leads to workers demanding for higher wages resulting into increased cost of production and thus further increase in price level.

(*In this the increase in price level of commodities makes workers to demand for higher wages as a way of maintaining their standards of living. The higher wages in turn increase the cost of production causes increase in wages and this results into further increase in the price level. The increase in prices is due to increase in money in circulation).*

(Illustration above)

Wage-price inflation

(*Refers to the persistent increase in the general price level that is due to demand for higher wages by workers. The employers increase prices for their goods in order to maintain their profit levels).*

Refers to a type of inflation that arises due to increase in wages which forces producers to raise prices to maintain their profit margins and this makes workers to demand for further increase in wages (*and the process continues in a spiral*).

(Illustration above)

Solutions to cost-push inflation

- Use of wage restraint and wage freeze to limit wage increase.(wage restraint refers to a voluntary restriction of wage increase where the government encourages trade unions to reduce their demand for higher wages so as to control inflation while wage freeze refers to the deliberate government policy to maintain wages at their current level for a specified period of time to control inflation).

- Reducing indirect taxes.
- Controlling the activities of trade unions.
- Reducing the interest rate on loans.
- Developing the infrastructural facilities such as roads.

Structural /bottleneck /scarcity inflation

Refers to the persistent increase in the general price level arising from supply rigidities in the economy (that cause shortages of commodities).

The supply rigidities keep output levels/ supply low and thus causing persistent increase in price levels.

Causes of bottleneck/structural inflation

a) Limited managerial and entrepreneurial abilities.
b) Break down of industrial sector.
c) Breakdown of productive infrastructure
d) Political unrest/instabilities in some parts of the country.
e) Foreign exchange shortages
f) Use of outdated technology in the major sectors.
g) Natural hazards such as floods, drought, pests and diseases limiting agricultural output.
h) Scarcity/ shortage of raw materials/inputs.
i) Hoarding of goods by traders/ sellers/ speculation by businessmen who create artificial shortages by hoarding commodities.
j) Shift of demand form one commodity to another (*leading to increased demand which does not match with the level).*
k) Poor production patterns –where a country produces commodities which are not consumed by the nationals.

Solutions to structural inflation

- Importing raw materials from cheaper sources to increase production.
- Modernizing agriculture to encourage production.
- Encouraging local and foreign investors.
- Improving the political climate in all parts of the country.
- Establishment and rehabilitation of industries.
- Improving infrastructural facilities such as roads, power generation.

Imported inflation

Refers to the persistent increase in the general price level arising from importing goods from countries/economies experiencing inflation.

External forces in the major developed countries severely affect the dependent economies of developing countries (dependent economies) especially those having trade relations with the DCs. This is especially so if the imported goods are used locally as raw materials in the production of other goods such as petroleum products.

Causes of imported inflation

a) Importing commodities from countries already experiencing inflation.
b) Rising prices of manufactured goods from the major industrialized countries especially capital goods *(yet LDCs having high MPM).*
c) International monetary crisis which affects the major currencies of the world (which affects the exchange rate abroad).
d) Oil crisis / rising fuel/petroleum prices –leading to a rise in prices of related commodities.
e) Devaluation of domestic currencies making imports expensive.
f) Depreciation of the domestic/local currency.
g) Rising costs of transport for imported goods and restrictive policies pursued by some LDCs—which raises the cost of imports.
h) Rising taxes imposed on imported goods.

Policy instruments to control imported inflation

- Diversification of import sources.
- Reduction in import taxes.
- Avoid importing from countries experiencing inflation.
- Adopting import substitution industrial strategy.
- Foreign exchange control.
- Avoid over devaluation of local currency.

Speculative theory of inflation (Expectation inflation)

This is a type of inflation that arises out of expectation of higher prices in the near future, leading to hoarding of commodities by producers or excessive buying of commodities by consumers and hence faster increase in the price level.

OR type of inflation caused by artificial shortages of commodities due to hoarding by producers expecting higher prices in the near future and which causes persistent increase in the price level.

Expectation inflation can be controlled by provision of the right information regarding actual market conditions.

Shock inflation

Refers to a situation where an abrupt/sudden economic event creates artificial shortage in commodities supplied leading to increase in the price level.

For example sudden closure of all borders of the country causing price shock inflation

Money inflation

Refers to the persistent increase in the general price level due to increased money in circulation or increase in money supply in an economy.

This is basically due to printing of more money (excessive issuance of money) which is circulated against few goods and services. The increase in money supply is not backed by increased production, leading to excessive demand and hence increases in general price level.

The monetary explanation of inflation is summarized in Irving Fisher's equation of exchange:

$MV=PT$

Where M is the amount of money in circulation

V is the velocity of circulation

P is the general price level.

T is the level of transactions

If T and V remain constant, an increase in money supply leads to increase general price level and hence a fall in the value of money.

There is a direct relationship between money supply and the general price level.

- Individuals spend their money balances directly on goods and services and this raises the aggregate demand. As the demand increases, the prices rise.
- When the excess money balances are spent on goods and services, it leads to the need to increase output which in turn increases the demand for labour, hence a rise in wages. This causes inflation through increasing the cost of production.

Qn. State and explain the theories of inflation

- Demand pull theory/ Keynesian theory of inflation
- Cost push theory of inflation
- Structural theory of inflation
- The monetary theory

Note: Other concepts

- **Stagflation**

Refers to the co-existence of high rates of inflation and high levels of unemployment in an economy.

It is a situation where the economy experiences stagnation—unemployment, depression and decline in GNP along with a high rate of inflation. It is also called inflationary recession.

****costs of stagflation***

a) Rising cost of living and falling standard of living
b) Reduces investment in the economy.
c) Reduces savings/incomes in the economy.
d) Reduces confidence in the country's currency.
e) Leads to high rate of brain drain(loss of skilled personnel to other countries)
f) Rising costs of borrowing (rate of interest on loans)
g) High dependence burden due to unemployment.

Measures of reducing stagflation in an economy

a) Reducing taxes to increase disposable income and hence encourage investment.
b) Liberalizing monetary policy such as reduced interest rate on capital.
c) Increasing GNP/output through reduction in factor input costs.
d) Increasing government expenditure to encourage production.

- **Deflation**

  Refers to the persistent fall in the general price level in an economy.

  It occurs where aggregate demand is lower than aggregate supply at full employment level of resources.

  Solutions to deflation

  a. Increase government expenditure.
  b. Increasing money supply in the economy.
  c. Increasing wages of workers.
  d. Reduction in taxes.
  e. Encouraging exportation.

- **Reflation**

  Refers to a deliberate government policy taken to force prices up wards and recover from a depression**.**

  [Refers to a situation where deliberate policies to lift the economy out of a depression are put up].

- **Headline inflation**

  Refers to the persistent increase in the general price level measured using (only basic and staple) food stuffs.

- **Underlying inflation**

  Refers to the persistent increase in the general price level (measured using) for goods and services excluding food stuffs.

  Stagnation

  Refers to an economic period of static activities characterized by low levels of investment, low levels of employment and constant growth rate.

Solutions to stagflation

a. Increasing government expenditure.
b. Reducing direct and indirect taxes
c. Provision of investment incentives.
d. Encouraging exports to increase foreign exchange earnings that are re-invested.
e. Discouraging importation of commodities to save forex which is used for investment.
f. Use of expansionary monetary policy.

Relationship between inflation and unemployment

- The high cost of living due to inflation makes labour immobile resulting into frictional unemployment.
- Inflation leads to an increase in wages and therefore making labour expensive for employers. This results into unemployment, when some workers are laid off from work.
- Inflation leads to reduced government expenditure which reduces economic activities which will otherwise expand employment sector.
- Policies to control imported inflation such as total ban lead to collapse of the import sector. This creates unemployment to workers in the import sector.
- Price control imposed by the government to control inflation discourages producers. This is especially maximum price legislation which leads to unemployment.
- Inflation results into high interest rates on loans which discourages borrowing. This reduces individuals' ability to invest and thus low employment creation.
- The highly priced exports result into a reduction in their demand in the foreign market. This reduces export earnings leading to limited production in the export sector and thus unemployment.
- According to Keynes, policies to solve unemployment include reducing direct taxation, expansionary monetary policy among others. These lead to inflation because of increased aggregate demand.
- Policies such as credit squeeze to reduce money supply limit investment and thus reduced employment opportunities.

General causes of inflation in developing countries

1. **Excessive issuance of money**. Excessive money supply (*such as through easily available credit*) not backed by increase in the supply of goods and services results into excessive demand and general increase in price level. This is due to the consumers competing for the scarce goods.
2. **Rapid population growth**. The population growth does not match with the productive capacity of the economy and hence causing shortages of commodities on the market –leading to persistent general increase in the price level.
3. **Structural breakdown of industrial sector/ Breakdown of some major industries**. Some industries breakdown due to mismanagement or other factors causing a reduction in production and supply of commodities, hence causing inflation in the economy.
4. **Rising taxation by government**. As the government tries to raise more revenue through imposing higher taxes, the producers/sellers also attempt to shift the taxes to the consumers by charging higher prices especially for essential commodities.

5. **Rising wage levels due to trade union pressures or political factors**. Frequent demands by trade unions for wage increase and the government policy of raising wages of the civil servants leads to cost-push inflation and demand –pull inflation (the costs to the employers increase and the employees' incomes increase).
6. **Importing from countries experiencing inflation**. Importation of highly priced goods causes inflation in the importing economies especially the dependant countries that import highly priced raw materials and fuels ; leading to rising costs of production.
7. **Deficit financing**. Due to operating a deficit budget, the government is forced to print more money year after year; which causes high level of money in circulation, hence money inflation.
8. **Speculative tendencies by sellers/businessmen**.(*Expectation of a major shortage of commodities or*)expectation of future increase in prices results into the sellers/ businessmen hoarding commodities and hence causing shortages on the market, causing persistent price increase in the economy.
9. **Break down of infrastructure**. Poor infrastructure in form of poor roads, rail lines, limited power supply—make transportation of goods from one place to another difficult or makes production inefficient. This in turn increases the costs of production and also reduces the supply of commodities; which causes shortages—leading to inflation.
10. **Foreign exchange shortages**. Developing countries experience shortage of foreign exchange due to poor terms of trade. Due to shortage of foreign exchange, the volume of imported goods reduces, hence causing limited supply of goods on the domestic market—resulting into inflation.
11. **Political unrest/insecurity in some parts of the country**. Unrest/ insecurity scares away local and foreign investors *(or cause physical destruction of productive infrastructure*) and hence reduces production of goods and services causing shortages on the domestic market, and hence general increase in the price level.
12. **Natural calamities (like drought, floods, pests, landslides) limiting agricultural output**. Natural calamities cause low levels of production, hence shortages especially in the agricultural sector causing prices to increase.
13. **Excessive exportation of commodities**. The scarce foreign exchange is misallocated on importing luxurious /non-productive items which cannot increase the country's productive capacity. This results into shortages on the domestic market leading to inflation.
14. **Rising /excessive government expenditure**. The rising government expenditure especially on non-productive sectors such as ceremonies, delegates or raising pensions and salaries of civil servants. These cause excessive demand with no corresponding increase in supply, causing inflation.
15. **Mal-practices such as corruption, tax evasion, 'supply of air'**. Since the money is not earned it is spent extravagantly causing excessive demand and hence general increase in the price level.
16. **Excessive desire for profits by businessmen**. Producers/ sellers raise their prices for products to earn higher profits or to offset the rising costs of production; causing inflation.
17. **Excessive inflow of income from abroad**. This is through net income from abroad, foreign aid, grants and gifts. This increases the aggregate demand and thus increases in prices for commodities.

Effects of inflation in an economy

Positive effects

The desirable effects of inflation are majorly realized when the rate of inflation is low (creeping /mild inflation), and they include:

1. Creeping ***inflation encourages investment/ production***. As the prices of finished goods rise relative to the cost of production, production becomes more profitable. This in turn promotes competition in production and hence boosting investment and increasing output.
2. ***Encourages savings among individuals***. Individuals save for the future that is unpredictable; which in turn increases capital accumulation and hence increased investment.
3. ***Creates employment for factors of production such as labour***. As the investors are encouraged to produce more due to mild inflation, more factors of production are employed such as more workers in firms-which improves the economic welfare.
4. ***Inflation increases the level of physical assets***. Many people are discouraged from holding cash and instead keep their wealth in form of real assets such as land, buildings and equipment. This increase in capital stock in turn promotes economic growth.
5. ***Encourages hard work among people***. Hard times of inflation force people to work harder in order to maintain or improve their standards of living/ to meet the high cost of living. This is in view of achieving ends and therefore idle resources are exploited
6. ***Inflation enables re-distribution of income and wealth***. Businessmen such as producers, traders, and real estate holders gain with a high profit margin. Profits and dividends on equities also increase.
7. ***Encourages labour mobility*** as workers try to look for the best employment opportunities to enable them to afford the rising cost of living. This enables labour to acquire more skills through exposure and also promotes exchange of ideas for development*. (Workers ensure that they are fully and efficiently utilized).*
8. ***Borrowers of funds gain from inflation***. This is because the real value of money borrowed reduces by the time it is paid back.
9. ***Pulls the economy out of a depression***, since it stimulates the level of aggregate demand. As prices increase, the consumption expenditure increases, which in turn increases production in the economy.

   ****Inflation encourages the adoption of import substitution strategy and thus industrialization.*** *Individuals produce the formerly imported expensive commodities so as to earn income***.**

Negative effects

1. ***Destabilizes the economic growth rate***. Inflation encourages smuggling, speculation, hoarding, black marketing, etc as people try to make quick profits. For example scarce commodities are smuggled into the country from other countries not experiencing inflation. This in turn reduces government tax revenue and also discourages the development of local industries.
2. ***Inflation increases uncertainties in business activities which distorts future planning***. This leads to misallocation of resources such as to non-essential but profitable goods.

3. **Discourages savings**. Inflation makes people to prefer keeping money in asset form instead of depositing money in banks, since money value declines frequently/ they fear losing the real value of their savings. This in turn lowers the level of deposits in banks and hence limiting the development of the banking sector (*the interest rates on savings are less than the rate of inflation)*.
4. ***Inflation discourages lending***. The creditors lose while debtors gain by a drop in money value by the time it is paid back. Therefore many lending institutions and individuals restrict on lending to avoid losses. This negatively affects large scale projects which are majorly funded by loans.
5. ***Discourages the fixed income earners such as salary earners, pensioners***. These have their incomes relatively fixed for a long period and hence find it hard to afford the rising cost of living because their real wages reduce.
6. ***Worsens the balance of payment problems***. This is because it makes exports expensive and therefore less foreign exchange is earned from abroad causing BOP deficits. Inflation also encourages dumping because imports are cheaper than the locally produced goods.
7. ***Leads to loss of confidence in the country's currency***; as a medium of exchange, a unit of account and store of value. Many people prefer to use other currencies that are more stable in value and this weakens the effectiveness of government fiscal and monetary policies aimed at managing the domestic currency.
8. ***Makes the government unpopular***. Due to economic instabilities created by inflation such as falling standard of living and wide spread poverty—with many people unable to afford basic needs, civil strifes/uprisings arise in the country causing unrest.
9. ***Discourages inflow of foreign capital and encourages more capital outflow***, which reduces opportunities in the economy. Many people prefer to invest in other countries where prices are more stable.
10. ***Distorts economic calculations and makes government planning more difficult*** especially at high rates of inflation. The government is unable to predict the future price levels in regard to income and expenditure. Therefore some projects are cancelled or postponed until the economic conditions improve.
11. ***Inflation worsens income inequalities in the economy***. More income flows from consumers to producers and businessmen which widens the income gap. Many consumers spend their available income on current consumption due to high cost of living.
12. ***Inflation increases unemployment in the economy***. This is because workers demand for higher wages (causing industrial unrest), which forces employers to cut down the number of employees and adopt capital intensive technology causing unemployment.
13. ***Inflation encourages illegal activities / negatively affects the morality of people***; by escalating crime rate, corruption, prostitution, political bankruptcy etc as people strive to raise more money.
14. ***Leads to the production and consumption of poor quality goods.*** This is due to rising cost of production or the rising cost of living due to a fall in the real income—hence a fall in the standard of living.
15. ***Leads to industrial unrest due to constant demand for high wages***. This affects production negatively.
16. ***Leads to brain drain*** *since most workers fill constrained by the rising cost of living. The skilled workers therefore leave the country to find countries where they are highly paid.*

- ***Inflation negatively affects tax revenue and government expenditure***. The real value of tax collections reduces by the collection lag (tax accrual and tax payment). The longer the lag, the greater the reduction in value of collection at a given inflation and the faster the inflation, the greater the reduction.

Measures to control inflation in an economy

A. MONETARY POLICIES

1. ***Increasing the bank rate****.* The central bank increases the rate at which it lends to the commercial banks and this reduces the amount of money available for loaning out. The commercial banks accordingly increase the interest rates on loans which discourages borrowing, hence reducing aggregate demand.
2. ***Selective credit control***. The central bank directs commercial banks to give credit to only specific or priority sectors and this reduces credit creation. This reduces money supply and excessive demand.
3. ***Currency reform and reducing the printing of money***. This involves issuing of new currency to replace the old currency especially during hyper inflation. The government also regulates the printing of money.
4. ***Selling of government securities to the public*** such as treasury bills, bonds. Through this the government withdraws a large amount of money from the public (reduces the amount of money in circulation) and hence reduces aggregate demand.
5. The government should ***encourage the use of instruments of credit such as the cheque, credit cards, and promissory notes.*** This reduces the use of money and its circulation in the economy, thus reducing monetary inflation***.***

B. FISCAL POLICIES

6. ***Reducing of government expenditure***. This is by carrying out retrenchment especially where there is over-staffing, and reducing allowances to civil servants. Also the unnecessary government expenditure such as on defense, ceremonies, and delegates are reduced, in order to reduce demand-pull inflation.
7. ***Increasing direct taxes***, to reduce disposable income and therefore reducing aggregate demand.
8. ***Reduction of indirect taxes on essential goods.*** This reduces the cost of production for the producers and thus reduces the prices of final output.
9. ***Government subsidizing essential commodities***, to reduce the cost of production. This in turn increases the domestic supply of commodities.
10. ***Adopt forced/compulsory savings policies***. Forced savings in form of compulsory contributions to NSSF (mutual funds or old age pension schemes), insurance policies. These reduce the amount of disposable income and this in turn reduces aggregate demand.
11. ***Surplus budgeting***. This is where the government collects more revenue than it is intending to spend as a way of replacing deficit financing. This avoids unnecessary printing of money.
12. ***Postponing the repayment of public debt*** and domestic arrears. Government slows down the payment as a means of reducing money supply (up to such a time when inflationary pressures are under control) and hence reduced aggregate demand.

C. EXPORT-IMPORT POLICIES

13. ***Encourage importation of especially scarce commodities.*** This can be done through reducing import duties and subsidizing the import sector, hence increasing supply of commodities within the economy.
14. ***Discourage exportation of scarce commodities***. This is intended to increase domestic supply of commodities in the economy and hence reducing inflation.
15. ***Avoiding importation of commodities from countries experiencing inflation/encourage importation of commodities from cheaper sources***. This avoids imported inflation in the economy/ hence reduced prices of such commodities in the domestic market.

D. PRODUCTION POLICIES

16. ***Improve the investment climate***. This is through extending credit, giving tax holidays, availing land to both local and foreign investors; and reducing the bureaucracy licensing investors. This improves the productive capacity and hence increased supply in the economy.
17. ***Expand the industrial sector***. This is through rehabilitation and privatization of public enterprises to increasing productivity and hence supply of goods in the economy to reduce inflation. More **import substitution industries** established to reduce domestic shortages (and avoid imported inflation).
18. ***Modernisation of agricultural sector***. This is through agricultural mechanization, irrigation farming, among others to increase the supply of agricultural output, hence controlling inflation.
19. ***Development of infrastructure*** such as power supply, road network, rail lines. This increases efficiency in production and transporting of commodities from one place to another; which in turn increase supply—hence controlling inflation.
20. ***Carryout further privatization of the economy.*** This encourages efficiency in enterprises and thus increased output and the prices generally reduce**.**
21. ***Ensure peace and stability in various parts of the country***. This is to encourage investment / promote the productive capacity by encouraging investors and development of productive infrastructure. This in turn increases production hence reducing shortage of goods and services/reduces the prices for output.

E. PRICE-INCOME AND OTHER POLICIES

22. ***Using Price control policies***. This involves direct controlling prices of essential consumer commodities by the government and making it illegal to buy or sell above the set maximum price.
23. ***Adopt wage control policies***. Government restricts wage increase in the public sector and sets wage limits for civil servants. However such a policy is likely to meet political resistance and opposition from trade unions.
24. ***Promote moral accountability, financial discipline and transparency among the population***. The government guides the public on the management and utilization of especially public resources. To stamp out corruption, embezzlement , tax evasion among others
25. ***Promote a culture of hard work and devotion among the people***. This is intended to avoid speculation, opportunism etc and in turn increase labour productivity and output levels.

Guiding questions

SECTION A

1) (a) Define scarcity inflation (1mk)

(b) What measures are used to control it? (3mks)

2) (a) Distinguish between structural inflation and suppressed inflation (2mks)
   (b) Outline the causes of bottleneck inflation (2mks)
3) (a) Distinguish between inflation and deflation (2mks)
   (b) Mention any two theories of inflation (2mks)
4) How does inflation affect:
   (a) Occupational distribution of labour (1mk)
   (b) Level of savings (1 mk)
   © Balance of payment position (1mk)
   (d) Income distribution (1mk)
5) (a) What is meant by stagflation?(1mk)
   (b) Outline the costs of stagflation (3 mks)
6) Define the following:
   (a) Inflationary spiral (1mk)
   (b) Expectation inflation (1mk)
   © Monetary inflation (1mk)
7) (a) Distinguish between hyper inflation and creeping inflation (2 mks)
   (b)Outline the positive effects of inflation in an economy (2 mks)
8) (a) Define the term imported inflation (1 mk)
   (b)Mention the measures that can be used to curb imported inflation (3 mks).
9) Using an illustration , explain the term demand-pull inflation (4 mks)
10) (a)distinguish between headline inflation and underlying inflation (2mks)
    (b) Outline any two solutions to structural inflation in an economy (2mks)
11) (a)Distinguish between cost-push inflation and expectation inflation (2mks)
    (b) Outline any two causes of cost-push inflation in your country (2mks)

SECTION B

1) (a) Under what circumstances is mild inflation desirable in an economy? (8mks)
   (b) Why is inflation difficult to control in developing countries like Uganda? (12 mks)
2) (a) Distinguish between Inflation and Reflation (4 mks)
   (b)Account for the persistent inflation in developing countries (16 mks)
3) (a) Explain the relationship between inflation and unemployment (8 mks)
   (b) For what reasons is inflation undesirable in an economy? (12 mks)
4) (a) What is meant by inflation? (4 mks)
   (b) Assess the impact of inflation in an economy (16 mks)
5) (a) Distinguish between gradual and runaway inflation(4 mks)
   (b) To what extent is inflation in your country as a result of rising costs of production? (16m mks)
6) (a) Discuss the causes of inflation in Uganda (10mks)
   (b) Suggest possible solutions to be taken by the government to curb inflationary tendencies in your country (10 mks)

7) "Rising costs and excessive demand are no longer adequate to explain inflationary tendencies" Discuss. (20mks)
8) Discuss the causes and effects of inflation in your country (20 mks)
9) (a) Distinguish between speculative inflation and wage-price inflation(4mks)
   (b) Examine the effects of inflation on the economy of your country (16 mks)
10) Given that an economy suffers from demand—pull inflation and balance of payment deficits, discuss the policy measures which are appropriate to deal with the two problems simultaneously (20 mks)
11) (a) Examine the causes of inflation in your country? (10 mks)
    (b) What are the measures being taken by your country to fight inflation? (10mks)
12) (a)Account for the causes of demand-pull and cost-push inflation in your country (10 mks)
    (b) What measures can be taken to curb demand pull inflation? (10 mks)
13) (a) What is meant by an inflationary gap? (4 mks)
    (b) Examine the policies adopted to alleviate the effects of inflation in your country (16 mks)
14) (a) Why may a low rate of inflation in an economy be desirable? (8 mks)
    (b) What policy measures have been undertaken to control inflation in your country? (12 mks)
15) (a)What are the causes of persistent inflation in an economy? (10mks)
    (b) Suggest that can be taken to control the rate of inflation in an economy (10mks)
16) (a)State and explain the theories of inflation (8mks)
    (b) Explain how the central bank solves inflation in an economy?(12mks)