Inflation: Meaning and Types

In economics, inflation is defined a sustained increase in the general price level of goods and services in an economy over a period of time. It is measured as an annual percentage increase. When the general price level rises, each unit of currency buys fewer goods and services. This implies that inflation reflects a reduction in the purchasing power per unit of money. In other words, inflation indicates a loss of real value in the medium of exchange and unit of account in the economy.

Different definitions of inflations have been given by different Economists some of which are as follows:

1. In the words of Peterson, "The word inflation in the broadest possible sense refers to any increase in the general price-level which is sustained and non-seasonal in character."

2. According to Coulborn inflation can be defined as, "too much money chasing too few goods."

3. According to Samuleson-Nordhaus, "Inflation is a rise in the general level of prices.

4. As per Johnson, "Inflation is an increase in the quantity of money faster than real national output is expanding".

5. Keynes has presented his view that true inflation is the one in which the elasticity of supply of output is zero in response to increase in supply of money.

Types of inflation

Inflation is usually categorized on different basis which are given as below:

A. On the basis of Rate: Inflation has been categorized into following types on the basis of its different rates:

1. Creeping Inflation: Creeping Inflation also known as a Mild Inflation or Low Inflation refers to that type of inflation when the rise in prices is very slow like that of snail or creeper. It is the mildest form of inflation with less than 3% per annum.

2. Chronic Inflation: If creeping inflation persist for a longer period of time then it is often called as Chronic or Secular Inflation. It is called chronic because if an inflation rate continues to grow for a longer period without any downturn which may possibly lead to Hyperinflation.

3. Walking or Trotting Inflation: When prices rise moderately with a single digit of less more than 3% but less than 10% per annum it is called as Walking Inflation.

4. Running Inflation: A rapid acceleration in the rate of rising prices is referred as Running Inflation. This type of inflation occurs when prices rise by more than 10% per annum.

5. Galloping Inflation: Galloping inflation also known as Jumping inflation occurs when prices rise by double or triple digit inflation rates of more than 20% but less than 1000% per annum.

6. Hyperinflation: when prices rise at an alarming high rate with quadruple or four digit inflation rate of above 1000% per annum then is termed as Hyperinflation. It is a situation where the prices rise so fast that it becomes very difficult to measure its magnitude. During a worst case scenario of hyperinflation, value of national currency of an affected country reduces almost to zero. Paper money becomes worthless and people start trading either in gold and silver or sometimes even use the old barter system of commerce. Two worst examples of hyperinflation recorded in world history are of those experienced by Hungary in year 1946 and Zimbabwe during 2004-2009 under Robert Mugabe's regime.

B. On the basis of Causes: Inflation has been categorized into following types on the basis of its different causes:

1. Demand-Pull Inflation: Demand-Pull Inflation also known as Excess Demand Inflation takes place when aggregate demand for a good or service outstrips aggregate supply. In other words, when aggregate demand for all purposes- consumption, investment and government expenditure-exceeds the supply of goods at current prices then it is called Demand-Pull Inflation. Demand-Pull inflation gives rise to a situation often economists describe as "Too much money chasing too few goods".

2. Cost-Push Inflation: When prices rise due to growing cost of production of goods and services then it is known as Cost-Push Inflation. Cost-push inflation also came to known as “New Inflation” is determined by supply-side factors mainly caused by higher wage-push, Profit-Push and higher costs of raw materials.

3. Scarcity Inflation: Scarcity inflation occurs due to hoarding by unscrupulous traders and black marketers so as to create an artificial shortage of essential goods like food grains, kerosene,etc. with an intension to sell them only at higher prices to make huge profits.

4. Structural Inflation: Structural inflation is that type of inflation often experienced in developing countries which is caused by structural rigidities such as agricultural bottlenecks, resource constraints bottlenecks, foreign exchange bottlenecks, physical infrastructural bottlenecks etc.

C. On the basis of Coverage: Inflation has been categorized into following types on the basis of its coverage:

1. Comprehensive Inflation: When the prices of all commodities rise throughout the economy it is known as Comprehensive Inflation also known Economy Wide Inflation.

2. Sporadic Inflation: When prices of only few commodities in few regions rise, it is known as Sporadic Inflation. It is sectional in nature. For example, rise in food prices due to bad monsoon represents this type of inflation.

D. On the basis of Occurrence: Inflation has been categorized into following types on the basis of its time of occurrence:

1. War-Time Inflation: when inflation that takes place during the period of a war-like situation then it is known as War-Time inflation. During a war, scare productive resources are all diverted and prioritized to produce military goods and equipments resulting in extreme shortage of resources use producing essential commodities. Consequently, prices of essential goods keep on rising in the market resulting in War-Time Inflation.

2. Post-War Inflation: Inflation that takes place soon after a war is known as Post-War Inflation. After the war, government controls are relaxed, resulting in a faster hike in prices than what experienced during the war.

3. Peace-Time Inflation: When prices rise during a normal period of peace then it is known as Peace-Time Inflation. It is due to huge government expenditure or spending on capital projects of a long gestation period.

E. On the basis of Government Reaction: Inflation has been categorized into following types on the basis of Government's degree of reaction:

1. Open Inflation: When government does not attempt to restrict inflation, it is known as Open Inflation. In a free market economy, where prices are allowed to take its own course, open inflation occurs.

2. Suppressed Inflation: When government prevents price rise through price controls, rationing, etc., it is known as Suppressed Inflation. It is also referred as Repressed Inflation. However, when government controls are removed, Suppressed inflation becomes Open Inflation. Suppressed Inflation leads to corruption, black marketing, artificial scarcity, etc.