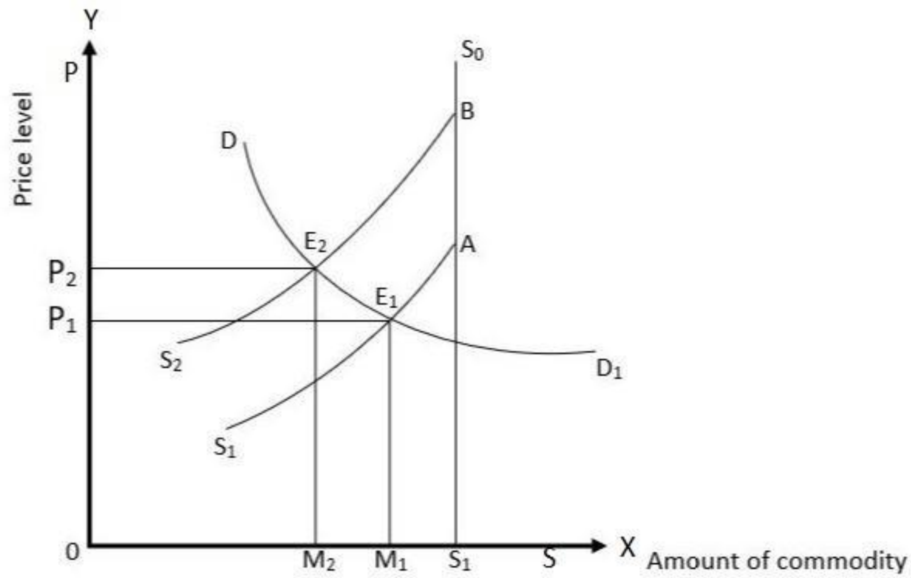
What is cost – push inflation? Explain the causes of cost push inflation.

Ans: If the price level of the country rises continuously as a result of increase in cost of production due to increase in prices of the factors of the production then that situation is called cost push inflation. It can be explained with the following diagram.



In the above figure price has been plotted price level on the vertical **OX** axis and amount of commodity on the horizontal **OY** axis. In the above figure **OS** is the amount of the production at full employment level here **S_1AS_0** is the initial supply curve. The portion **S_1A** of the supply curve is upward rising. This is because before full employment supply of commodity increases as price level increases. Further the portion **AS_0** of the supply curve **S_1AS_0** is parallel to the price level **OX** axis. This is because at full employment level amount of production and supply of commodity remains fixed as a result amount of production and supply of commodity remains constant even through the price level increases after full employment.

In the above diagram **DD1** in the total demand curve of the society. From the diagram it is seen that total demand curve of a society **DD1 a**nd the total supply curve **S_1AS_0** interact each other at point **E1**. Here the point **E1** is the equilibrium point where the equilibrium price is **0P1** and equilibrium amount of commodity is **OMI** which is less than the amount of the commodity at full employment level.

The curves of cost/push inflation are as follows:

1. <u>Increase in price of goods and services:</u> Increase in price of goods and services at abnormal rate by the business man to earn excessive profit can lead to profit included inflation generally the monopolised and oligopolist take such option.

2. <u>Increase in public expenditure:</u> Due to huge expenditure of government the money supply in the hands by public increases which causes inflation

3. <u>Deficit financing:</u> When there is a shortage of fund in hands of the government for meeting budget expenditure the government prints note and meets the deficit which causes inflation

4. <u>Increase in velocity of circulation of money:</u> If the velocity of circulation of money increases some currency acts as many notes which increases money supply causing inflation

5. <u>War expenses:</u> Due to war non-productive expenses increases which causes inflation

6. <u>Increase in population</u>: If there is a sudden increase in population then demand increases which causes inflation

7. <u>Hoarding:</u> If the producer hoard goods and commodities artificial scarcity is created causing increase in prices as result inflation arises

8. <u>Shortage of production:</u> Due to operation of trade cycle or economic recession product faces a down fall which causes scarcity in supply of goods services as a result inflation arises.

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