

TYPES OF INFLATION

Depending upon the range of increase, and its severity, inflation may be classified into three broad categories.

1. Low inflation

Such inflation is slow and on predictable lines, which might be called small or gradual. This is a comparative term which puts it opposite to the faster, bigger and unpredictable inflation. Low inflation takes place in a longer period and the range of increase is usually in 'single digit'. Such inflation has been called as '**creeping inflation**'. We may take an example of the monthly inflation rate of a country for six months being 2.3 per cent, 2.6 percent, 2.7 percent, 2.9 percent, 3.1 percent and 3.4 percent. Here the range of change is of 1.1 per cent and over a period of six months.

2. GALLOPING INFLATION

This is a '**very high inflation**' running in the range of double-digit (i.e., 20 percent, 100 percent or 200 percent in a year). In the decades of the 1970s and 1980s, many Latin American countries such as Argentina, Chile and Brazil had such rates of inflation – in the range of 50 to 700 percent. The Russian economy did not show such inflation after the disintegration of the ex-USSR in the late 1980s.

Contemporary journalism has given some other names to this inflation---- **hopping inflation, jumping inflation and running or runaway inflation.**

3. HYPERINFLATION

This form of inflation is 'large and accelerating' which might have the annual rates in million or even trillion. In such inflation not only the range of increase is very large, but the increase takes place in a very short span of time, prices shoot up overnight.

The best example of hyperinflation that economists cite is of Germany after the First World War – in early 1920s. At the end of 1923, prices were 36 billion times higher than two years earlier. This inflation was so severe that paper German currencies (the Deutsche Mark) were more valuable as stove fuel than as actual money. Some recent example of hyperinflation had been the Bolivian inflation of mid-1985 (24,000 percent annum) and the Yugoslavian inflation of 1993 (20 percent per day).

Such inflation quickly leads to a complete loss of confidence in the domestic currency and people start opting for other forms of money, as for example physical assets, gold and foreign currency (also known as 'inflation proof assets') and people might switch to barter exchange.

OTHER VARIANTS OF INFLATION

Other than the three broad categories we analyzed above; some other variants of inflation are also considered by government in their policymaking:

I. BOTTLENECK INFLATION

This inflation takes place when the supply falls drastically and the demand remains at the same level. Such situations arise due to supply-side hurdles, hazards or mismanagement which is also known as structural inflation. This could be put in the '**demand –pull inflation**' category.

II. CORE INFLATION

This nomenclature is based on the inclusion or exclusion of the goods and services while calculating inflation. Popular in western economies, core inflation shows price rise in all goods and services excluding **energy** and **food articles**. In India, it was the first time in the financial year 2000-01 when the government expressed that it was under control- it means prices of manufactured goods were under control. This was criticized by experts on account of excluding food articles and energy out of the inflation and feeling satisfied on the inflation front. Basically, in the western economies, food and energy are not the problems for the masses, while in India these two segments are of most vital importance for the common people.

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