Q: What is inflation? What are its types? Explain.

Ans: Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. It measures the average price change in a basket of commodities and services over time.

According to 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."*

Broadly, inflation can be of three types based on its rate, which are as follows:

(a) Moderate Inflation:

When the prices of goods and services rise at a single digit rate annually, then moderate inflation takes place. This inflation is also termed as creeping inflation. When an economy passes through moderate inflation, the prices of goods and services increase but at moderate rate.

Under this type of inflation, the rate of increase in prices vary from country to country. Moderate inflation is a type of inflation which can be anticipated; therefore, individuals hold money as a store of value.

(b) Galloping Inflation:

When the prices of goods and services increase at two-digit or three-digit rate per annum, then galloping inflation takes place. Galloping inflation is also known as jumping inflation. In the words of Baumol and Blinder, "Galloping inflation refers to an inflation that proceeds at an exceptionally high."

Galloping inflation has adverse effect on middle and low income groups in the society. As a result, individuals are not able to save money for future. This kind of situation requires strict measures to control inflation.

(c) Hyperinflation:

When the rate of increase in prices is extremely high or out of control, then hyperinflation occurs. In other words, hyperinflation takes place when the increase in prices is more than three-digit rate annually. This generally takes place when there is an unrestricted increase in the supply of money in the market.

This leads to a situation of imbalance in the supply and demand of money. Consequently, money loses its real worth at a rapid rate, which, in turn, leads to an increase in prices. The economic condition of Germany in 1922 and 1923 is the best example of hyperinflation. Apart from this, in 1989 and 1991, Argentina, Brazil, and Zimbabwe were also striving hard to overcome hyperinflation.

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