Theory of economic deflation

Theory of Economic Deflation: Cause and Effect Introduction: Deflation has historical evidence starting from 14th century. The periods of the deflation are as follows " 1330 to 1490, 1670 to 1770, and 1850 to1900" (Sptephen, 2003). The deflation in generally, portrays where the economy of a nation or group of countries go down with the indication of decrease in the price.

Cause for deflation:

The main indicator of the deflation is price of good. With the help of historical data of price of a commodity one can plot the overall economy of a nation. If the deflation indicator found to lean down then after a break point the indicator will become negative. This process is deflation. The two pair of key elements that are involved in deflation theory is 1) goods and money and 2) demand and supply. The sum of amount of goods and money; and the demand and supply of both goods and money influence the economy of a nation or it can be called as economic decider. The demand and supply of goods results in deflation: if there is decrease in demand of goods or increase of supply of goods. The decrease in demand of goods is due to decreases in money supply or unavailability of money. If the supply of goods increases the price or the demand of the product get reduced. If this happens for all products at a point of time then it is called as secular deflation. The reduction in the transaction due to less money availability is also comes under deflation. " Overall the causes for deflation are: 1. Decreasing Money Supply, 2. Increasing Supply of Goods, 3. Decreasing Demand for Goods and 4. Increasing Demand for Money" (What is Deflation, n. d)

Effects of deflation:

Deflation has positive as well as negative effects. Stephen Davis (2003) points that people have got idea of deflation as reduce in rate of goods and its actual reduction in price. The deflation plays very good role for people who have large or considerable revenue in his/her hand. In terms of share market during deflation the market shares goes down and hence it's simply the golden period for investor. Not only in share market also in real estate and lot more filed deflation is the period of investment.

The bad effects are for those who are called as unemployed and debtors (What is Deflation, n. d). Since during the period of deflation the transactions are very less hence there is very low business and so results in unemployment and no income for the business men.

Conclusion:

The deflation cannot be avoided. Since inflation takes place there should be some point at which deflation occur. On an overall scale deflation found to occur only for a few period of time than compared to inflation. The deflation does both plus and minus to the people of a nation or in field. So it is advisable to be in more than one field so that if one field goes down other can act as a back up for our survival.

Work Cited

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Stephen Davis, Ideas on Liberty. March 2003, 09 April 9, 2009,

What is Deflation, Inflationdata. com. 09 April 9, 2009,