Inflation

Finance

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Inflation This is a very crucial term when talking about monetary issues. This is so because it is a phenomenon that affects money-related issues every now and then. Before going any further it is of essence to understand first what the term refers to. Simply put, inflation refers to the rise in the prices of goods and services in a given economy for a given period of time. When such a thing happens, it therefore means that each unit of currency in that particular economy buys fewer goods than what it could have purchased initially before the inflation. It is of importance to know that the concept of inflation is just not something that came about the other day but in actual sense it has been there for quite some time now and this fact is documented throught the economic history. The common measure of the extent of inflation is the Consumer Price Index which is used to measure the general increase and decrease in the prices of consumer goods and services. Over the years there has been several attempts of trying to come up with ways through which inflation can be measured. In the present day it is quite fascinating to report that indeed inflation can be calculated and accurately predicted. It is also worth noting that there are various ways and formulas that are used to calculate this phenomena. Some of these are documented below. Calculating the inflation rate CPIthis year – CPIlast year I = CPIlast year Calculating The Consumer Price Index (CPI) for the current year CPIthis year = (I x CPIlast year) + CPIlast year Calculating The Consumer Price Index (CPI) for the previous year CPIlast year = CPIthis year (I +1) This formula for calculating interest rate is mostly used by economists. On the other side it can also be used by corporations to compare the revenue they are earning over a given time frame and also for the purpose of calculating the expenses incurred over the same period. The best way that can be used to calculate the annual inflation rate is to use the year’s opening and ending Consumer Price Index in the formula. 2002-2012 (Current Inflation Rates) The above tables and graphs reflect the inflation rates that have been exhibited in the United States over the period indicated. Inflation Rate Comparison Between Presidential Terms It is seen that the two terms in which President Reagan was in office there were serious economic developments in the United States. In this connection the concept of Reaganomics was developed. In relation to inflation during this time it was seen that Pres. Reagan tried to control inflation by reducing the supply of money in the economy. It is seen that the rate of inflation towards the end of President carter’s tenure in office was in the region of 10% but this figure went down to 4% towards the end of President Reagan’s tenure. This result was achieved by the application of high interest rates. References Current Inflation Rates: 2002-2012: www. usinflationcalculator. com Niskanen, William(1988), Reaganomics Rate of Inflation: www. financeformulas. net Krugman, Paul (2004), An Economic Legend