

What are the factor
causing the record
low of 0.3% inflation
and what are the
con...

[Literature](#), [Russian Literature](#)



FACTORS CAUSING THE RECORD LOW OF 0. 3% INFLATION A fall in inflation level can emerge from a number of factors; all of which stem from a shift in the supply curve. This is mainly because the prices of all goods and services are heavily affected by a change in the supply and demand, which means that if demand drops in relation to supply, prices will have to drop accordingly. Additionally, a change in supply and demand of a nation's currency plays a role in the price setting.

Besides, increased productivity level may lead to inflation. Innovative solutions and new processes help increase efficiency, which ultimately leads to lower prices. Lower prices may also be caused by change in structure of capital markets and decrease in currency supply.

Thus factors causing the record low of 0. 3% mainly emerge from the fall in prices of widely consumed products or services such as motor fuels and food. A fall in price for the two is the main cause of this extremely low inflation level. This has been observed recently in UK.

“ The rate of UK consumer prices Index inflation fell to 0. 3% in January; its lowest level since records began. Cheaper petrol and lower food prices helped by a supermarket price war-cut the rate from 0. 5% in December” (BBC NEWS).

Extreme fall in prices, deflation, results into reduced business revenue. Businesses must significantly reduce the prices of their products in order to stay competitive. As they reduce their prices, their revenue starts to drop. Besides, deflation may cause wage cutbacks and layoffs. Drop in revenue of companies forces them to reduce their expenditure to meet their bottom line. One of the possible ways to cut the expenses is by reducing wages and

cutting positions. Additionally, extreme fall in inflation level may increase purchasing power (BBC NEWS). Consumers may substantially take advantage of the lower prices by increasing their spending.

Generally, a record of 0.3% inflation level is mainly factored by the fall in prices of widely consumed products and services.

References

BBC NEWS. UK Inflation Rate Falls to Record Low of 0.3% in January.

Available: <http://www.bbc.co.uk/news/business-31501805>. Last accessed 21st February 2015.