

# [Inflation-deflation and macroeconomics objectives](https://assignbuster.com/inflation-deflation-and-macroeconomics-objectives/)

As we all know that Each and every country or economy must face some or the entire macroeconomics objective. The macroeconomic objective means that all the aims that affect the country or economy as a whole. These macroeconomic objectives are the main objectives and aim of the government whether the economy is free market economy or planed/commend economy.

The government keeps this objective in order to affect or protect the economy the government has five macroeconomics objective that affect the economy as a whole from customers, retailers, business and large organizations.

These macroeconomics objective are the following:

## Inflation:

1)Controlled rate of inflation:

Inflation is the continuous or persistent rise in the general price of the goods and services. During inflation the purchasing power will rise as well as the standard of living of the people but the value of money will fall mainly, there are three types of inflation and are :

Creping inflation: inflation is between 1% to 10%. This time is normal

Suppressed inflation: the government tries to suppress (reduce) inflation.

Hyper inflation: this is when inflation is high that means more than 1000% and the people buster for goods. So money becomes worthless.

Inflation comes from many reasons or causes. There are many causes that affect the rate of inflation and they are:

Demand pull inflation: this is when inflation is caused when the demand of goods and services are more that the supply and this the supplies of the products will raise their prices and this will cause inflation to rise. The demand pull inflation can be shown as a demand supply diagram

s

s

D

D

D1

D1

Price

Quantity

Cost push inflation: This occurs as inflation is caused when a rise in the price of any cost will cause inflation, this rise on cost can be a rise in cost of raw materials cost of rent, costs of transportation and cost of wagers and this rise of wages has two spirals.

Wage-price spiral: the employees will demand for higher wages if they recognized that the prices of the products are rising, this will cause inflation.

Wage-wage spiral: inflation is caused when a group of employees demand their managers to raise their wagers and its achieved then other groups of employees will demand a rise.

The demand and supply diagram is like this:

price

Quantity

D

D

s

s

S1

S1

Actually there are stakeholders that benefit from inflation and the advantages are:

1-Cutomers and people have high incomes and the employees will receive high wages. This raises the standard of living.

2- The borrowers from the bank will gain as they have to pay less money than what they have borrowed.

2)The cost of inflation:

Loss of purchasing power: that the inflation average price of good and services in economy has rises by 2%, if the rate of the inflation is 2%. So the costumer will be able to buy as many goods and services.

Effect on interest rates: banks make there money buy charging the use of using money to borrowers by adding 2% or 3% every day. There rate will be a high rate of inflation.

Effect on international competitiveness: trading parent will cause into less competitive, and will make import from lower-inflation trading partner more attractive. And this may lead to the revenues a greater import.

Labour unrest: if the employees don’t feel that their salaries are keeping up with inflation. This may lead to a disagreement between the unions and management.

## Deflation:

Deflation is a huge curve that fall in the average level of prices in the economy. And there is two types of deflation are:

1-Good deflation: there is a big improvement in supply and increased productivity in economy that an increase will show in the long aggregate supply. So i= the real output will assume the lower of unemployment and increase in workers to produce the high level of output.

2-Bad deflation: change in demand side of the economy. And demand will fall in a decrease of the price level in real output, while the level of unemployment will rise.

Causes of deflation in both categories is huge fall in the price level, but the (first: “ good deflation”) is positive because it result in a n increase in real output and a fall in unemployment, while the (second: “ bad deflation”) is negative because the result is fall in real output and rise in unemployment.

Costs of deflation:

Unemployment: it’s the biggest deflation. If the demand is low, than the business are likely to shutdown, so this may lead to deflation spiral. while the price falls, the consumers will wait until the price drop further.

Effect on investment: decrease in all: profit, business. So this may lead to confidence the business to be low and so the result is affected on investment.

Costs to debtors: if profits are low, this makes it difficult for businesses to pay back their loans and there be much economic failure.

Macroeconomics takes a wider view and considers such things as measuring all the economic activity in the economy, inflation, unemployment and the distribution of income in the whole economy. And in this research paper macroeconomics had been discussed and shown in many different types and kinds.