management leads to strikes and lock outs in various industries. As production gets disrupted, the shortages of goods appear. It causes an increase in the level of prices.

(xviii) Hoarding and profiteering : If some unscrupulous businessmen indulge in illegal activities like hoarding, black marketing and profiteering, artificial shortags of essential commodities appear. As consequence, the economy experiences serious inflationary pressures.

(xix) Tax policy of the government : If the government of a country excessively takes resorts to indirect taxes such as excise duty, sales tax, electricity duty, import duties, the prices tend to increase. Thus tax policy can intensify the inflationary conditions.

(xx) Trade policy : If the government adopts the policies to promote exports and restrict imports of commodities, the shortages appear in the home country and prices have a strong tendency to increase.

3. TYPES OF INFLATION

Inflation has several types discussed below :

(i) Currency Inflation : If the process of inflation in a country is induced by an increase in currency–coins, notes etc. by the government or the central bank, the demand for goods and services starts rising. Such an inflation is termed as currency inflation.

(ii) Credit inflation : If the commerical banks undertake credit creation on a large scale, the investment spending is increased by the business firms. The increased demand for investment goods raises the level of prices. Such an increase in prices is considered as credit inflation.

(iii) Wage-induced inflation : If there is an increase in wage rate of the workers, the cost of production increases. The producers are forced to increase the prices of finished products. As the prices increase, the cost of living goes up. It makes the workers to demand further increase in wages. As trade unions force the employers to raise money wages of the workers, there is further increase in wages and prices. In addition, higher wages also increase workers' demand for goods. Thus prices tend to increase further. When the increase in prices in initiated by an increase in wages and the subsequent increase in prices is also due to increase in wages, the inflation is supposed to be the wage-induced inflation.

(iv) Deficit-induced inflation : If the initial rise in prices is caused by deficit financing and the subsequent doses of deficit financing continue to push up the prices, such inflation is known as the deficit-induced inflation.

(v). Open inflation : The inflation is said to be open, when the increase in prices resulting from increase in demand, money income or wages and costs takes place openly and no attempt is made by the government or central bank to check the rising prices.

(vi) Suppressed inflation : If the authorities try to restrict the process of rising prices through such measures as taxes, control on money and credit, price control, rationing, investment controls, building controls etc., the process of inflation is called as suppressed inflation. In these cases, it looks that prices donot increase but inflation still remains persent. Only thing is that it is temporarily suppressed by various control measures. As soon as those controls are removed, the inflation reappears openly with greater ferocity.

(vii) Inflation according to its speed : The rate at which price level increases in the economy suggests such types of inflation as creeping inflation, walking inflation, running, inflation and galloping inflation or hyper inflation. The inflation is said to be *creeping*, if the prices per decade rise at a rate of 10 percent. The inflation is called as *walking*, if the price level rises per decade at the rate of 30 to 40 percent. The inflation is said to be *running*, if the price leves rises at the rate upto 100 percent per decade. The inflation is said to be the *galloping or hyper-inflation*, if the price level rises at a rate over 100 percent per annum.

(viii) Demand-pull or excess demand inflation : The inflation is said to be demand pull and excess demand inflation, when the price increase is not only initiated by the increase in demand for goods and services, but the subsequent increase in price is also caused by the further pull of demand or increase in excess demand. For a more detailed study of demand-pull inflation, refer to Section 4.

(ix) Cost-push Inflation : The inflation is regarded as cost-push or wage push inflation, if the increase in prices of products is not only initiated by the push of costs and wages but the subsequent rise in prices is also perpetuated by the push of costs and wages. For a more detailed study of this type of inflation, refer to Section 4.

(x) Profit-push inflation : Sometimes the inflation is neither caused by the pull of demand nor by the push of wages and costs, it is caused by the tendency of business men to raise the prices of products in order to secure more and more profits. Such inflation is termed as profit-push inflation.

4. DEMAND-PULL AND COST-PUSH THEORIES OF INFLATION

I. Demand-Pull Theory of Inflation

According to the demand pull theory of inflation, the process of rising prices is initiated by the excess of demand over supply to goods and services in the economy. Later on further excess of demand over supply continues to exercise demand pull and the price level continues to move in the upward direction. Suppose the economic system is initially in a state of full employment equilibrium. The aggregate supply of output becomes fixed or perfectly inelastic in such a situation. Now suppose the aggregate demand increases due to any or several of the factors mentioned below :

(*i*) Increase in the quantity of money.

(*ii*) Increase in the velocity of money.

(*iii*) Increase in the flow of credit.

(*iv*) Increase in consumption.

(*v*) Increase in investment.

(*vi*) Increase in government expenditure.

(*vii*) Increase in foreign demand.

The excess of aggregate demand over aggregate supply causes the bidding up of prices. Thus the excess demand or demand pull initiates the increase in price level. As prices increase, consumers and producers expect that the prices will rise even in future. They start making purchases not only for the current period but also for the future. Thus there is further pull of demand and price level continues to increase. So long as the excess demand or the demand-pull continuous to exist, the process of inflation will persist in the economy.

Keynes' inflationary gap analysis is also a variant of the demand pull or excess demand inflation. The *inflationary gap* is the excess of anticipated expenditure over the available supply of output at base prices or the pre-inflationary prices.

The demand-pull inflation or excess demand inflation can be explained with the help of Fig. 1.