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# Inflation and Its Reasons

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Psychology



# Introduction

I chose the inflation as topic because it is relevant and directly concerns me.

Inflation is an up-rise in the overall level of prices for goods and services in the economy. At the same time, some goods may become significantly more expensive, others may become cheaper, and still others may not change in price at all.

# Causes of Inflation

Inflation can rise for many reasons:

## 1. Increasing **demand**.

For example, when mobile phones became **affordable**, everyone wanted to use mobile communications. Mobile operators did not have time to immediately acclimatize to the high demand.

## 2. Reduction of the **supply**.

A **shortage** can also occur for another reason — if demand remains the same, but goods and services become less. This may happen due to crop failure, restrictions on the import of foreign goods, the actions of a monopolist in some market.



**Demand** – a need for goods or services that customers want to buy or use

**Affordable** – not expensive: "nice clothes at affordable prices"

**Supply** – an amount of something that is available for use

**Shortage** – a situation in which there is less of something than people want or need

# Other Causes of Inflation

## 3. **Weakening** of the national currency.

If the **exchange rate** of foreign currencies increases, then imported goods become more expensive. This also leads to an increase in inflation.

## 4. High inflation **expectations**.

When people and companies expect prices to rise strongly, they often begin to change their **customer** behavior: they buy goods for the future and save less. For example, a furniture manufacturer expects prices for wood and other blanks to rise. In order to cover his future raw material costs, he starts raising the price of his goods in advance.



**Weakening** – to make or become weak or weaker

**Exchange rate** – the rate at which the money of one country can be changed for the money of another country

**Expectations** – the feeling or belief that something will or should happen

**Customer** – a person who buys goods or a service



# Conclusion

Everyone is waiting for prices to rise and prices are rising precisely because people are waiting for it. The best situation for the economy is stable low inflation, in which the buying power of money is preserved. It will allow you to plan budgets for a long time, save, invest, launch new business projects. The ability to make long-term plans is the key to economic development.