

. **INFLATION**

1.
 - Imports will become so expensive
 - Income from abroad will dwindle/diminish
 - Imported inflation may set in
 - Local investment becomes very expensive

2.
 - Reduction in profit due to rise in price and reduced sales volume
 - Wastage of time when for reasonable prices around
 - Decline in standards of living due to decrease purchasing power
 - Loss to creditors
 - Retardation of economic growth as people are reluctant to take risks
 - Adverse effects on the balance of payment as export becomes more expensive leading
 - to a fall in their demand
 - Loss of confidence in monetary system

3.
 - Increase in money incomes/salaries and wages
 - Lower taxation on personal income
 - General shortages of goods and services
 - Effects of credit creation by commercial banks

4.
 - Reducing tax on inputs
 - Restricting imports
 - Wage harmonization measures
 - Price harmonization

5.
 - Encourages investment

- Creating employment
 - Creates improvement to infrastructure
 - Motivation to work
 - Benefits to both the sellers and debtors
- 6.
- Reduction in profits
 - Wastage of time
 - Increases in wages and salaries
 - Decline in standard of living
 - Loss to creditors
 - Retardation of economic growth
- 7.
- i) It causes a deficit in the balance of payment
 - ii) It weakens a country's currency hence discouraging savings
 - iii) It discourages investment due to reduced savings
 - iv) It may cause industrial unrest
 - v) It cause decreased standards of living
 - vi) It hampers development plans
 - vii) It leads o uneven distribution of income

INFLATION

1. *Negative effects of inflation to an economy.*

- i. People loose confidence in local currency as its difficult to use in transaction when it loses value very fast.

- ii. Hinders implementation of development plans since the cost of projects increases.
- iii. Leads to unfair distribution of income as the rich become richer than the poorer.
- iv. Lead to low standard of living /poverty as people find it difficult to get basic need due to high cost of living.
- v. Discourages savings/investments since people fear their money will loose value/as they have less disposable incomes.
- vi. Leads to balance of payment deficits as imports are highly demanded than exports.
- vii. Hinders implementation of development plans since the cost of projects increases
- viii. Encourages social evils as people resort to bad /immoral practices to get money.
- ix. Discourage lending and borrowing this is due
- x. will loose when their money loose value.

2. (a) *Effects of positive inflation to the economy*

- Debtors will pay less
- Sellers will buy commodities at low prices
- Motivation to work
- Increase in investment
- High profits due to high prices
- Increased job opportunities resource use

b) *Reasons why the government may adopt the delocalization policy of locating industry*

- Reduced effects of occurrence of war
- Provision of employment opportunities in rural area
- Reduces rural urban migration
- Encourages balanced regional development
- Market for locally produced raw materials

- Locals are able to access goods easily

3. ***Five causes of inflation in an economy;***

- Increase in government expenditure making more money available to people which increase aggregate demand leading to an upward pressure on prices
- Excessive credit creation by commercial banks increase money supply and hence purchasing ability leading to inflation
- Increase in money income which increase purchasing power causing an upward pressure on price of goods and services
- Shortage of goods and services leading to excessive demand hence pulling the prices of commodities upwards
- Cramour for increase in wages and salaries which will be reflected in the increased prices of commodities
- Increase in indirect taxes (e.g. VAT) which make firms to increase their prices
- Increase in profit margins by management and shareholders leading to an increase in prices
- Increase in cost of inputs(e.g. raw material)causes the price of finished goods to be high

Reduction in subsidies leading to an increase in cost of production which will be reflected in an increase in the price of the commodities

4. Mild inflation - A type of inflation where the general prices of goods and services increase

slowly at a single digit rate of less than 10%

Hyper inflation - It is a situation whereby the general prices of goods and services are

extremely high whereby the rate is in thousands and millions percent per year

Demand pull inflation - Comes about when there is excessive demand for goods and services in

the economy causing rise in prices

- In this situation there is too much money in the economy chasing very few goods and services

Cost push inflation - It results from an increase in the total production costs of goods and

services leading to an increase in prices of

commodities

-It is the high costs of production that pushes the prices of goods and services up

Imported inflation - It results from trading with foreigners whereby prices of foreign goods

affect domestic prices

High prices of foreign goods [imported goods] increase domestic prices of goods due to domestic demand