Inflation: Sustained Upward Pressure on the Price Level.
1. The Phillip’s Curve is not a reliable relationship. There is no consistent relationship between inflation and unemployment.

2. Strict monetarism no longer works in our modern financial system.

3. Inflation is an evolving and very complex phenomenon that embodies a combination of macro and micro economic factors.
4. When the anecdotes and economic data do not corroborate, one of them is wrong. More often than not, it’s the data.

5. Macroeconomic models do not deal well with a changing economic structure, let alone paradigm shifts. Policymakers must make decisions in real time and cannot wait for the parameters in their economic models to catch up and stabilize.
6. The inflation experience of the 1970’s was a statistical aberration.

Calculating Inflation

\[
\text{Inflation Rate} = \frac{\text{New Price Level} - \text{Old Price Level}}{\text{Old Price Level}}
\]
Example of Calculating Inflation

Question: What was the inflation rate between 1988 and 1999?

Price Index, 1988=118.3
Price Index, 1999=166.6

\[
\text{Inflation Rate} = \frac{166 \times 6 - 118 \times 3}{118 \times 3} = \frac{48 \times 3}{118 \times 3} = 40.8\% 
\]
Costs of Inflation
i.e. Who loses from inflation?

1. Decline in Purchasing Power
2. Redistribution of Wealth from Lenders to Borrowers
3. Contract instability that takes time to work through the economic system
Who is hurt from inflation?

1. People on fixed incomes
2. Savers
3. Creditors