Inflation, Deflation, Stagflation, and Hyperinflation

**Key Concepts**

- **Inflation** is a general increase in all prices across an economy, while **deflation** is a general decrease in all prices across an economy.
- Periods of **hyperinflation** are characterized by very rapid increases in the price level across the economy.
- An economy experiencing **stagflation** faces rising prices and falling output.
- Changes in price are determined by the relationship between the product and money, not by the value of the product.

Most countries experience a slow increase in the overall price level, or **inflation**. **Deflation**, however, is much rarer than inflation and typically occurs during periods of **depression**.

**Hyperinflation** is a very rapid increase in the price level.

A historical example of hyperinflation occurred in Bolivia in 1985. The chart on the left illustrates the 38,000% increase in prices over a six-month period. By printing more money and creating “trash cash,” the government exacerbated the situation and the economy reverted to barter.

**Stagflation**

As oil prices rose in the U.S. in 1974, output (real GDP) fell by 6% and the annual inflation rate was 11%.

In 1980 the real GDP growth was -3% while inflation was 13.5%.

Rising prices and declining output identify **stagflation**. The U.S. experienced a period of stagflation during the 1970s oil **supply shocks**. In 1974 prices rose at a rate of 11%, while GDP fell by 0.6%.