**Inflation**

Definition: Inflation is the rate a price rises, and essentially how much the currency/dollar is worth at a given moment with regards to purchasing.

Inflation target: 2%

Walking inflation: above 2% but less than 10%

Running inflation: 10% - 20%

Hyperinflation: around 50% in a month

Measures: measured in two ways

**a. Consumer Price Index (CPI):** measures retail prices of goods and services, putting more than 80,000 purchasable items from hundreds of different categories into a "market basket" that groups them together.

**b. Personal Composition Expenditures (PCE):** Some analysts prefer to use PCE to CPI when measuring the inflation rate. The Personal Composition Expenditures price index measure the aforementioned core inflation, which is the inflation of goods and services excluding food, gas and oil.

**Causes:** There are many different ways the inflation rate can rise, and they can be lumped into two different categories: Cost-push inflation and demand-pull inflation.

1. **Cost-push Inflation:** prices are driven up by the rising costs to make or provide the goods and services. **This can cause a supply shortage**, but the demand for the goods and services has not decreased**. Rise of wages also trigger cost-push inflation up**.
2. **Demand –pull Inflation:** demand-pull inflation can be the sort of inflation businesses dream about**. Often demand-pull inflation can develop as a result of too much money being made, devaluing the currenc**y and requiring an increase in price.

**Effects of Inflation:** The impact of inflation affect many different groups when it hits. Not every group is affected the same way.

Generally in a period **of mild inflation**, job-seekers can benefit. Increased spending can mean increased demand, and companies may decide to hire new employees to better manage the new demand. If you have borrowed money from a lender, inflation could be convenient for you. With the currency devalued, what you borrowed a year or two ago is now the equivalent to a lower amount of money.

In this assumed manageable level of inflation, businesses that sell goods and services can benefit as well. A healthy amount of inflation is said to increase and incentivize spending more.

An unhealthy**, unmanageable level**, however, is disastrous for nearly everyone. If inflation spirals out of control, people lose faith in their currency. Financial institutions suffer as people pull their money out of them. Businesses suffer as their goods become too expensive for most people.

Gross National Income (GNI)

The **gross national income** (**GNI**), previously known as **gross national product** (**GNP**), is the total domestic and foreign output claimed by residents of a country, consisting of gross domestic product ([GDP](https://en.wikipedia.org/wiki/GDP)), plus [factor incomes](https://en.wikipedia.org/wiki/Factor_income) earned by foreign residents, minus income earned in the domestic economy by nonresidents.

Purchasing power parity (PPP)

**Concept:**

Macroeconomic analysis relies on several different metrics to compare economic productivity and standards of living between countries and across time. One popular metric is purchasing power parity (PPP).

 The concept is based on the [*law of one price*](https://en.wikipedia.org/wiki/Law_of_one_price), where in the absence of [transaction costs](https://en.wikipedia.org/wiki/Transaction_cost) and official [trade barriers](https://en.wikipedia.org/wiki/Trade_barrier), identical goods will have the same price in different markets when the prices are expressed in the same currency.

**Definition:** Purchasing power parity (PPP) is an economic theory that compares different countries' currencies through a "basket of goods" approach.  According to this concept, two currencies are in equilibrium or at par when a basket of goods (taking into account the exchange rate) is priced the same in both countries.

Measurement of PPP:

* + **Law of one price**
  + **Big Mac Index**
  + **iPad Index**
  + **KFC Index**

**Per Capita Income**

**Per capita income** (**PCI**) or **average income** measures the average income earned per person in a given area (city, region, country, etc.) in a specified year. It is calculated by dividing the area's total income by its total population.



