

Re: Do I understand (the basics of) inflation correctly?

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From: The Trucker (*mikcob_at_verizon.net*)

Date: 02/10/05

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Bill wrote:

>
> *"The Trucker" <mikcob@verizon.net> wrote in message*
> *news:1107919999.080861.222390@l41g2000cwb.googlegroups.com...*
>> *Bill wrote:*
>>> *"The Trucker" <mikcob@verizon.net> wrote in message*
>>> *news:cubovs018sc@news1.newsguy.com...*
>>> > *Bill wrote:*
>>> >
>>> >>
>>> >> <xyzer@hotmail.com> wrote in message
>>> >> *news:1107823142.865537.213970@c13g2000cwb.googlegroups.com...*
>>> >>> *Ok, here's the way I was taught to think about inflation in*
>>> >>> *macroeconomics class. Tell me if I basically understand things*
>>> >>> *correctly:*
>>> >>>
>>> >>> *Inflation is a monetary phenomenon caused by increases in money*
>> *supply*
>>> >>> *growth -- period. This does not mean average prices cannot rise*
>> *for*
>>> >>> *other reasons. Thus, just because average price levels rise,*
>> *this does*
>>> >>> *not necessarily mean the increasing prices were caused by an*
>> *increase*
>>> >>> *in money growth and thus inflation.*
>>> >>>
>>> >>
>>> >> *That's not normally the definition used for inflation. It is*
>> *typically the*
>>> >> *level of prices.*
>>> >>
>>> >
>>> > *The money growth thing is more correct than the price rise thing.*
>> *See*
>>> > *below.*

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>>> >

>>>

>>> *It is hard to argue with a definition. You are arguing that the
>> definition*

>>> *should be different.*

>>

>>>> *From GreaterVoice...inflation*

>>

>> *It must be constantly recalled that inflation is anywhere and
>> everywhere a monetary phenomenon. That inflation is that dimension of
>> prices that can supposedly be controlled by varying the "interest rate"
>> of credit, by varying the amount charged for entrepreneurial
>> "investment" in the provisioning of more "goods", or by creating or
>> extinguishing money. This claim is constantly repeated in that when our
>> masters of misdirection speak of inflation they claim that it is
>> something that can be caused or cured by messing about with interest
>> rates and/or the amount of money in The Economy. Never will you hear
>> the talking heads mention "inflation" without mentioning interest rates
>> or the Federal Reserve*

>>

>>

>

> *This is from YOUR source above*

>

> *"This word is defined by our masters of misdirection (the current
> economics profession) as a rise in the general price level"*

>

> *Again you wish to change the definition that is commonly accepted. But you
> can not say it is not the definition that is commonly accepted.*

You are correct. I am attempting to show the duplicity in subscribing to the "standard" definition and at the same time claiming that increased interest rates are the proper control/cure for it.

>> *So make up your alleged mind(s).*

>

> *Why do you need to resort to insults to make your points?*

>

Just a little humor.

>> *You can't have it both ways.*

>> *If interest rates are the cure for inflation then it MUST be
>> a monetary phenomenon.*

>>

>

> *1. I never said anything about interest rates so why are you raising this?*

I'm not arguing with you. I'm arguing with Greenjeans and the talking heads.

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> 2. *That is not true any more than saying that because something is cured
> by penicillin then it must be a mold phenomenon.*

I can accept your point to a degree... Let me edit my remark as follows:

If interest rates are a proper/correct cure for inflation then
inflation must be a monetary phenomenon.

>> *An increase in interest rates is NOT going to reduce the price of
>> oil.*
>>
>>> >>> *Second, I was taught inflation in and of itself is actually, and
>> all
>>> >>> else equal, not generally a "problem" on a macro scale. That is,
>> in
>>> >>> general, wherever you can find someone who's hurt by
>>> >>> higher-than-expected inflation, there will also be someone in
>> that
>>> >>> exact case you find who will have been helped by it. The classic
>>> >>> example is the person paying on a fixed mortgage. If you assume
>> that
>>> >>> higher-than-expected inflation benefits the person paying on the
>>> >>> mortgage, since he gets to use dollars of increasingly lesser
>> value to
>>> >>> pay it off, then you also assume the person receiving the money
>> of
>>> >>> lesser and lesser value is worse off. Of course, a nominal
>> interest
>>> >>> rate can be approximated by adding the real interest rate plus
>> the
>>> >>> expected rate of inflation (plus other things), so that generally
>>> >>> speaking people try to protect themselves from losing because of
>>> >>> inflation. But some people do lose and some people win when
>> inflation
>>> >>> rises more than expected. It's just that on a macro scale it all
>> evens
>>> >>> out. It becomes I guess sort of like a zero-sum phenomenon.
>> That is,
>>> >>> when you sum the benefits and the losses of the people of the
>> world, it
>>> >>> ends up being zero. Of course, if you consider the places where
>> there
>>> >>> is incredibly rapid inflation or changes in inflation, where
>> people
>>> >>> constantly have to spend significant amount of time to keep up
>> with
>>> >>> the changes, then this would be a cost to society to consider.
>> But
>>> >>> this kind of cost is really something besides inflation in
>> itself, and
>>> >>> generally not significant in most countries. Of course,*

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>> *inflation can*
>>> >>> *be seen to go along with many economic troubles in the world, but*
>>> >>> *inflation generally is not the root cause of the problems, even*
>> *where*
>>> >>> *it might appear to be.*
>>> >>>
>>> >>
>>> >> *I would think in an economy with run away inflation every one is*
>> *hurt just*
>>> >> *because it disrupts the economy – not that you can't keep up but*
>> *you can't*
>>> >> *do business. On a country wide scale, I'm pretty sure it is not*
>> *true*
>>> >> *either. Take the the example of gas prices rising due to arabs*
>> *increasing*
>>> >> *the price of oil. They win, we lose.*
>>> >>
>>> >> **Bill**
>>> >
>>> > *1. Gas is not actually tied to oil as closely as you seem to think.*
>>> >
>>> > *2. An increase in the price of either one is not necessarily*
>>> > *a _cause_ of or a sign of inflation. (this is why rising prices*
>>> > *are _not_ synonymous with inflation and why inflation is not*
>>> > *just rising prices)*
>>> >
>>> > *3. If more money is not supplied to the economy then the prices*
>>> > *will remain constant overall and those things that use the most*
>>> > *oil will cost more and those that don't will get cheaper or they*
>>> > *will disappear.*
>>> >
>>>
>>> *Could you explain that. Why would, say, something like logs used for*
>> *heating*
>>> *get cheaper if oil prices go up? Or water?*
>>
>> *If there is only a certain amount of money and products in circulation*
>> *then any rise in the price of one product must be offset by a fall in*
>> *the price of some other product or there must be fewer products. There*
>> *simply is no other way for the price of one given product to rise. The*
>> *money must come from decreased spending on other things.*
>
> *But is there is decreased spending? The Arabs get the money. They loan it*
> *back to govt. by buying bonds and the govt. buys more stuff. Further, even*
> *if this were not true, why must the price increases be exactly off-set by*
> *the price decreases?*
>
> **Bill**

The Arabs may just as well buy some new cars from Bimini or spend the dough internally on roads and bridges or whatever. And the amount

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of expatriated dollars grows and grows and has been and will continue to do so. And the price decreases or the lack of consumption would hopefully offset the rise in the oil price. But that will not happen. What will happen is that people will get very scared and hoard money. That is probably the best reason to answer rising oil prices with cheaper (more easily attained) dollars.

>> *Thus, no*
>> *overall price increases and thus no "inflation" if "inflation" is*
>> *defined as "a rise in the general price level".*
>>
>> *Bill*
>>>
>>> > *It is appropriate to add more money thus balancing the rising*
>>> > *prices between established money and labor. The prices rise*
>>> > *and wages rise somewhat. The holders of money lose a little*
>>> > *and the workers lose a little and the rentier (the oil "owner")*
>>> > *does not win as much as he otherwise would have. The price*
>>> > *of oil is higher in dollars but the dollars are slightly less*
>>> > *"valuable" than they were.*
>>
>> *A rise in the _general_ _price_ _level_ calls for more money in*
>> *circulation (or perhaps a higher velocity?).*

This one is also misstated. I meant to say that a rise in the general price level goes hand in hand with more money in the economy. Does the increasing prices drag the money supply along or does the increase in money drag the prices along?

>>> > <http://GreaterVoice.org/econ/glossary/inflation.php>
>>> >
>>> >>> *Would most people agree with this in general or pretty much call*
>> *this*
>>> >>> *analysis way too general (or completely flawed) to apply to the*
>> *real*
>>> >>> *world? Do most economists think this way in general?*
>>> >>>
>>> >
>>> > --
>>> > *"I know no safe depository of the ultimate powers of society but*
>>> > *the people themselves; and if we think them not enlightened enough*
>>> > *to exercise their control with a wholesome discretion, the remedy*
>>> > *is not to take it from them, but to inform their discretion by*
>>> > *education." – Thomas Jefferson. <http://GreaterVoice.org>*
>>

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