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INFLATION: DEFINITION AND TYPES

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Inflation is a rise in the general level of prices [1, p. 134]. Inflation is caused by the overflow of money circulation channels with excessive money supply in the absence of an adequate increase in the commodity supply. Inflation is not an increase in the cost of living, but is essentially a fall in the value, or purchasing power of money. It should be noted that inflation cannot take place under natural commodity exchange as it does under the circulation of gold and silver. Under paper circulation, money is a symbol, not the real wealth that causes inflation. In other words, inflation is not a natural process (if inflation is considered an economic phenomenon), it is directly related to human activity.

Types of inflation can be divided by the degree of occurrence and by the rate of growth. Depending on the degree of occurrence, there are two types of inflation: open inflation and controlled inflation. Open inflation occurs in markets where prices move freely. It is characterized by a rise in prices and a depreciation of the currency. Open inflation cannot destroy the market mechanism, but it can strongly distort it. The economy continues to respond to market signals and adapts to different markets. Controlled inflation occurs in a hidden form and is characterized by a decline in product quality, an increase in shortages and an increase in queues. In this type of inflation, prices and incomes are completely controlled by the state and frozen at a certain level. At the same time, however, the causes of inflation persist and government measures are futile. Controlled inflation disrupts the self-regulation of the market mechanism and leads to the expansion of the "black market" [1, p.140].

Depending on the rate of growth, there are three types of inflation: moderate ("creeping"), rapid and hyperinflation. Moderate inflation is characterized by low growth in the consumer price index (up to 10% per year) and the preservation of the value of money. This type of inflation is safe for the economy and is a target for every state. Galloping inflation is

characterized by a significant increase in the consumer price index (up to 200% per year), which accelerates the conversion of money into goods. This type of inflation is dangerous for the economy and requires significant inflationary measures. Hyperinflation is characterized by a significant increase in the consumer price index (more than 200% per year), an increase in the amount of money in circulation, a disproportionate difference between commodity prices and wages, deterioration in the social welfare of the wealthy and the collapse of large companies. This type of inflation is a very serious problem for the state and its economy and therefore requires decisive anti-inflationary measures.

As mentioned earlier, moderate inflation is the most acceptable. Inflation is necessary to some extent to stimulate the economy and make the best use of limited resources. Moderate inflation through a moderate increase in prices can increase profit margins, stimulate production, increase payment turnover and enhance investment activity. However, if moderate inflation remains weak, it can have negative effects on the national economy (e.g. price increases lead to devaluation, incentives for labor activity weaken). Inflation turns from a temporary engine into a brake, increasing economic and social instability, destroying normal socio-economic relations and weakening the main drivers of economic growth. Inflation destroys economic relations and weakens the main drivers of national economic growth [1, 134].

Inflation, like many other phenomena, has consequences for society and the national economy. These consequences occur in all cases, regardless of the type of inflation and economists should take them into account when formulating anti-inflation measures. Let us consider some of the social and economic consequences of inflation: devaluation of monetary income of citizens, businesses and the state; weakening the incentive to save money; penetration into the functioning of the credit money system; creation of tensions in international economic relations; redistribution of income and wealth between lenders and borrowers; reduction of physical production (reduction in the quantity of goods and services).

References

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