**In**[**economics**](https://en.wikipedia.org/wiki/Economics)**, inflation refers to a general progressive increase in prices of goods and services in an economy. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation corresponds to a reduction in the**[**purchasing power**](https://en.wikipedia.org/wiki/Purchasing_power)**of money. The opposite of inflation is**[**deflation**](https://en.wikipedia.org/wiki/Deflation)**, a sustained decrease in the general price level of goods and services. The common measure of inflation is the inflation rate, the annualized percentage change in a general**[**price index**](https://en.wikipedia.org/wiki/Price_index)**.**

Prices will not all increase at the same rates. Attaching a representative value to a set of prices is an instance of the [index number problem](https://en.wikipedia.org/wiki/Index_(economics)). The [consumer price index](https://en.wikipedia.org/wiki/Consumer_price_index) is often used for this purpose; the [employment cost index](https://en.wikipedia.org/wiki/Employment_cost_index) is used for wages in the United States. Differential movement between consumer prices and wages constitutes a change in the [standard of living](https://en.wikipedia.org/wiki/Standard_of_living).

The causes of inflation have been much discussed (see [below](https://en.wikipedia.org/wiki/Inflation#Causes)), the consensus being that growth in the [money supply](https://en.wikipedia.org/wiki/Money_supply), alongside increased [velocity of money](https://en.wikipedia.org/wiki/Velocity_of_money), is typically the dominant [causal factor](https://en.wikipedia.org/wiki/Causality).

If money were perfectly [neutral](https://en.wikipedia.org/wiki/Neutrality_of_money), inflation would have no effect on the real economy; but perfect neutrality is not generally considered believable. Effects on the real economy are severely disruptive in the cases of very high inflation and [hyperinflation](https://en.wikipedia.org/wiki/Hyperinflation). More moderate inflation affects economies in both positive and negative ways. The negative effects include an increase in the [opportunity cost](https://en.wikipedia.org/wiki/Opportunity_cost) of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation were rapid enough, shortages of [goods](https://en.wikipedia.org/wiki/Good_(economics)) as consumers begin [hoarding](https://en.wikipedia.org/wiki/Hoarding_(economics)) out of concern that prices will increase in the future. Positive effects include reducing [unemployment](https://en.wikipedia.org/wiki/Unemployment) due to [nominal wage rigidity](https://en.wikipedia.org/wiki/Nominal_rigidity), allowing the central bank greater freedom in carrying out [monetary policy](https://en.wikipedia.org/wiki/Monetary_policy), encouraging loans and investment instead of money hoarding, and avoiding the inefficiencies associated with deflation.



Today, most economists favor a low and steady rate of inflation. Low (as opposed to zero or [negative](https://en.wikipedia.org/wiki/Deflation)) inflation reduces the severity of economic [recessions](https://en.wikipedia.org/wiki/Recessions) by enabling the labor market to adjust more quickly in a downturn, and reduces the risk that a [liquidity trap](https://en.wikipedia.org/wiki/Liquidity_trap) prevents [monetary policy](https://en.wikipedia.org/wiki/Monetary_policy) from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to [monetary authorities](https://en.wikipedia.org/wiki/Monetary_authority). Generally, these monetary authorities are the [central banks](https://en.wikipedia.org/wiki/Central_bank) that control monetary policy through the setting of [interest rates](https://en.wikipedia.org/wiki/Interest_rate), by carrying out [open market operations](https://en.wikipedia.org/wiki/Open_market_operation) and (more rarely) changing commercial bank [reserve requirements](https://en.wikipedia.org/wiki/Reserve_requirements).

|  |  |
| --- | --- |
| Country | Inflation Rate (Percentage) |
| Japan | 0.8 |
| France | 2.8 |
| Italy | 3.9 |
| United Kingdom | 4.8 |
| Canada | 4.8 |
| Germany | 5.3 |
| United States | 7.0 |
| Average | **4.20** |

2021 Inflation Rates for G7 Countries