Answer on Question #40606 – Economics – Macroeconomics

Assignment

Q.NO:2
When does demand-pull inflation occur?
Identify and explain the four (4) causes of demand-pull inflation .

Q.NO:3
Define productivity. List and briefly explain the determinants of productivity?

Solution

Demand-pull inflation is asserted to arise when aggregate demand in an economy outpaces aggregate supply. It involves inflation rising as real gross domestic product rises and unemployment falls, as the economy moves along the Phillips curve. This is commonly described as "too much money chasing too few goods". More accurately, it should be described as involving "too much money spent chasing too few goods", since only money that is spent on goods and services can cause inflation. This would not be expected to happen, unless the economy is already at a full employment level.

The term demand-pull inflation is mostly associated with Keynesian economics.

Productivity is the ratio of output to inputs in production; it is an average measure of the efficiency of production. Efficiency of production means production's capability to create incomes which is measured by the formula real output value minus real input value.

Increasing national productivity can raise living standards because more real income improves people's ability to purchase goods and services, enjoy leisure, improve housing and education and contribute to social and environmental programs. Productivity growth also helps businesses to be more profitable.