

## FinancialQuotient

# What is inflation?

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### WHAT DOES IT MEAN?

Inflation is the rise in general price levels. It's a situation when things get more and more expensive.

An economy comprises many

things or items and their prices change differently. Hence it makes sense for a country to choose a sample or basket of items that its population typically consume.

Economists use some method of averaging the prices of the items in the basket and the average price is

called a price index. A good example is the Consumer Price Index. A 5 per cent inflation rate means that the price index has increased by 5 per cent.

Most of the time, this figure we see in the headlines of newspapers is what we call headline inflation.

Sometimes, we may exclude some classes of items from the basket. Most countries exclude energy (for example, crude oil) and food as these prices change a lot and are therefore not a good representation of the prices experienced by the general population. The infla-

tion figure from this "reduced" basket is called core inflation (formerly known as underlying inflation). Singapore's core inflation excludes accommodation and private road transport, instead of food and energy.

### WHY IS IT IMPORTANT?

High inflation affects everyone. When things get more expensive, our salary will buy us fewer things and our savings will buy us fewer things in the future.

Most countries depend on their

central banks to manage inflation.

### IF YOU WANT TO USE THE TERM, JUST SAY:

The Monetary Authority of Singapore has kept the inflation in Singapore well under control.

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- The opinions expressed are those of the writer and do not represent the views and opinions of NUS.