

The Complex Dynamics of Inflation: A Descriptive Review

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Abstract

Inflation is hard to ignore as it silently erodes the economic foundation of every country, regardless of its size, strength, or developmental level. Rising inflation has become a pressing concerning problem worldwide, endangering macroeconomic stability and sustainable growth. Persistent inflation reflects the direction of an economy and can disrupt demand-supply balances, as well as worsen labor market consequences. Hence, it is crucial to have a thorough understanding of inflation, including its diverse forms, underlying causes, socioeconomic impacts, and ramifications, to adopt proper strategies to reduce it. Previously, many review articles and studies have been published focusing on specific aspects of inflation, but this review synthesizes evidence across dimensions to offer an integrated perspective useful for both researchers and policymakers. Secondary data is gathered from different virtual databases and platforms (Google Scholar, Scopus, and ResearchGate) using targeted keyword combinations; inclusion and exclusion criteria were applied to select peer-reviewed English-language studies within the defined timeframe. This descriptive review covers inflation, including its types, principal causes, macroeconomic and social effects, methods of measurement, and effective strategies used to control inflation. It also highlights and compares major theoretical perspectives (Keynesian, Monetarist, and the Phillips-curve framework), explaining how these frameworks inform empirical interpretation and policy choices. By offering a holistic perspective, this review provides a thorough understanding of inflation and supports the development of up-to-date, evidence-based policies for economic stability.

Keywords

Inflation, Types of Inflation, Demand-Pull Inflation, Causes of Inflation, Monetary Policy, Fiscal Policy

1. Introduction

From the prices of salt to the prices of gold, inflation hits at every step of life. Whether investing in the global market or shopping at a neighborhood store, it's nearly impossible to avoid the power of inflation. Inflation refers to a general rise in prices over time. It's usually caused when there's more money floating, but not enough goods and services to buy. In short, it's not that things are more valuable and expensive, but it means the purchasing power of money decreases [1]. For instance, if 500 rupees bought you 5 things last year, and this year those same items cost more, you can only afford 3 items for 500. That's inflation; money loses its buying power due to a price upswing. Inflation has played a key role in determining the economy of any country. When it remains low and steady, economies grow faster and support stable employment. However, high inflation hinders economic growth, and if it persists, it can lead to severe financial crises [2]. Due to its significant impact on economic performance, inflation has become a crucial subject of study in the modern economic landscape, particularly since sustainable growth is the primary objective of every country [3,4]. While many studies have examined inflation from isolated perspectives, this review provides a holistic overview of its multiple dimensions, including types, causes, effects, measurement tools, and control strategies, within a single framework, and additionally engages with key theoretical debates.

2. Theoretical Perspectives

Economic theories have long shaped policy responses and academic debates, and they play a vital role in understanding inflation. The Keynesian perspective views inflation primarily as a demand-driven phenomenon, emerging when excessive demand surpasses available supply, pushing wages and prices upward. Post-Keynesian economists further highlight that it may also stem from cost-push pressure, distributional conflicts between workers and firms [5]. The monetarist school, led by Milton Friedman, views inflation as a purely monetary phenomenon that occurs when money supply expands more rapidly than real output, and long-term price stability depends on strict regulation of monetary growth [6]. Keynesians emphasize active government intervention to stabilize economies and restrain the risks of unregulated markets, whereas monetarists advocate free-market solutions and minimal government interference [7]. The Phillips curve contributes to the theoretical debate by indicating the reverse relationship between unemployment and inflation, thereby highlighting the role of labor market dynamics in shaping inflationary pressures and providing policymakers with a framework to examine how wage growth, labor demand, employment patterns, and productivity affect macroeconomic stability [8]. Modern economies can integrate Keynesian and Monetarist insights by applying fiscal policy during recessions and tightening monetary policy in periods of rapid growth [9].

3. Types of Inflation

Inflation comes from a variety of economic forces and can occur in several different forms, each with distinct characteristics, causes, and implications, as shown in the Figure 1. To control it effectively, it is necessary for policymakers and economists to better understand these various types. Recognizing these distinctions not only improves the effectiveness of anti-inflationary measures but also contributes to long-term economic planning and resilience.

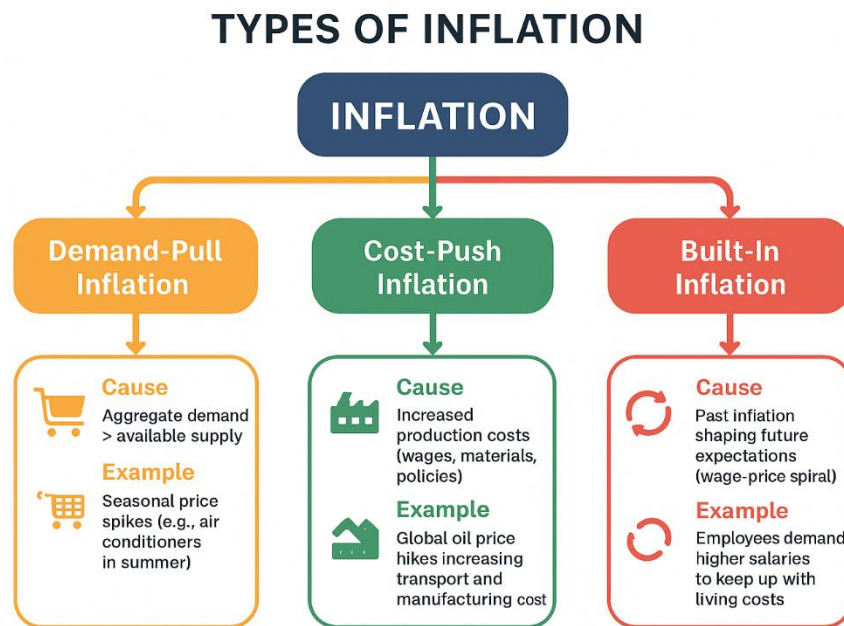


Figure 1. Different types of inflation.

3.1 Demand-Pull Inflation

Demand-pull inflation is an increase in the price of the services and goods that happens when demand in the economy surpasses available supply [10]. This discrepancy leads to an increase in prices as customers compete to buy inadequate goods and services. In simple words, too many people want to purchase goods, but there are not enough products to go around. This imbalance pushes prices upward as customers compete with each other to buy the limited supply. For example, the cost of air conditioners usually goes up during the summer season due to higher demand from the public. Similarly, during holiday seasons, the prices of clothing, electronic gadgets, and travel tickets may also rise because more people want to buy them at the same time. When people have more money in their pockets and feel confident about their financial future, they are willing to pay more for a short supply of goods and services, creating upward pressure on prices. This inflation is typically associated with periods of economic progress and increased consumer confidence about spending [11].

3.2 Cost-Push Inflation

Cost-push inflation refers to an increase in the general price level of items and services caused by increased fabrication costs [10]. This type of inflation is often associated with higher wages for workers, increased prices of production materials, or variations in government policies and regulations that increase the overall budget for construction [12]. For example, when global oil prices rise significantly, it pushes up the transportation and manufacturing expenses. Businesses pass these higher prices on to consumers in the form of more expensive products, such as food, clothing, and electronics. Moreover, when agricultural production is affected by poor weather conditions like floods and earthquakes, it leads to rising costs of crops and edible products. Over time, this process can slow economic development by decreasing customer purchasing power.

3.3 Built-In Inflation

Built-in inflation is a self-perpetuating cycle where past inflation shapes future expectations. When employees demand higher pay to keep pace with rising living costs, and companies increase prices to cover the increased wages and production costs, this repeating cycle of increasing salaries and prices is known as built-in inflation [13]. For example, if transport workers negotiate higher pay due to rising fuel prices, transport companies may increase fares, and this cost affects other sectors such as food delivery and retail. It is sometimes considered a simple adjustment cycle where salaries try to catch up to inflation, and just because wages increase significantly, it doesn't lead to runaway inflation [14]. However, with the passage of time, if expectations of continuous price and wage increases become extremely rooted in society, built-in inflation can become very difficult to break.

4. Causes of Inflation

Inflation is not caused by a single factor but by a combination of different forces that push prices higher. These factors include, but are not limited to, excessive government spending, an expanded money supply, and rising commodity prices worldwide [15]. It also stems from the disruptions on the supply side, concentrated market power, and insufficient economic resilience [16]. In developing countries, higher rates of inflation are associated with a fragile democratic and political environment, informal economic activities, and a heavy dependence on natural resources [17]. Sometimes, it also results from an imbalance between spending and saving behaviors, often due to situations caused by different factors like unsteady or slow productivity growth, compulsory savings, increased borrowing to finance consumption, and rising debt levels [18]. Ultimately, it is important to recognize the many causes of inflation so that effective policies can be developed to ease the economic burden on people.

5. Effects of Inflation

Inflation is one of the most prominent factors influencing the overall stability and economic growth of any country [19]. It plays a key role in shaping economic growth, either by driving up prices or by weakening the currency [20]. Rising inflation not only slows down the pace of overall economic growth but also decreases the real income of consumers and lowers business profitability [21]. However, not all sectors of the business world are affected equally by inflation; the extent of the impact depends on how changes in the prices of raw materials and manufactured products influence each sector [22]. In addition to the direct effects of inflation, expectations about future inflation may also shape business behavior. When firms anticipate rising inflation, they often respond by increasing prices, seeking additional financing, and adjusting employment or investment strategies [23]. For consumers, it erodes purchasing power, raises the prices of essential goods and services, and makes financial markets unstable. Nonetheless, a manageable level of inflation can boost economic activity by motivating people to spend and companies to invest, before costs increase further [24]. Empirical evidence shows that a moderate level of inflation, particularly rates under 17.2% is supportive of economic development, but rates higher than this threshold can harm growth [25]. Understanding the diverse effects of inflation not only highlights its critical role in shaping the overall economy but also emphasizes why accurate measurement tools are essential.

6. Measurement of Inflation

Measuring inflation can be complicated as various factors impact its accuracy. But accurate measurement is necessary for understanding its consequences on the economy and guiding policymakers to make informed decisions. It is generally shown as a percentage change over time. Economists typically rely on some indicators; the most common are CPI (Consumer Price Index), and GDP price index and implicit deflator. The CPI is widely used to track inflation through changes in prices of goods and services consumed by metropolitan areas. However, technical errors in its calculation sometimes exaggerate inflation, leading to criticism. The GDP (Gross Domestic Product) price index and implicit deflator track price changes for products and services bought domestically by consumers, companies, governments, and foreign entities, but imported goods are not included. While the CPI is best suited for measuring inflation among urban residents, the GDP price index and implicit deflator offer a broader perspective. They are used for tracking price variations across the entire economy, including households, firms, governments, and international buyers [26]. Inflation needs precise measurements because inaccuracies may result in inappropriate policy decisions. Table 1 summarized the most commonly used measures of inflation, outlining their scope, limitations and strengths. Without accurate measurement, policymakers may incorrectly diagnose the problem and choose ineffective strategies.

Table 1. Indicators for measuring inflation.

Indicator	Coverage	Strengths	Limitations
CPI	Prices of a fixed hamper of goods & services consumed by urban households	Simple, widely used, directly reflects consumer experience	May exaggerate inflation, excludes rural population, subject to sampling errors
GDP Price Index	All domestically produced goods & services (consumption, investment, government spending)	Captures entire economy, reflects domestic production costs	Excludes imports, less direct measure of consumer experience
Implicit GDP Deflator	Ratio of nominal GDP to real GDP; reflects overall price level changes in an economy	Very broad, includes firms, households, government, foreign buyers	Calculated after GDP figures, not suitable for short-term policy adjustments

7. Strategies to Control Inflation

Effective management of inflation is a necessity for every economy. Policymakers rely on various systematic strategies to control it successfully. But, monetary policy employed by central banks and governments is the most significant way to manage inflation, primarily through the regulation of interest rates and control of money supply. Raising policy rates lowers overall demand and discourages borrowing, which helps alleviate inflationary pressures. Studies suggest that monetary policy has been a consistently effective mechanism in regulating inflation, particularly in the manufacturing sector [27,28]. Alongside monetary measures, fiscal policy also plays a critical role in controlling inflation. The government often reduces public expenditure and increases taxes, which in turn helps to control inflation [29]. Inflation targeting is another beneficial tool that central banks use to modify interest rates to improve the legitimacy of monetary

policy. Across both emerging and developed countries, this strategy helps to reduce volatility and stabilize inflation expectations [30,31]. The fourth approach, structural reform, reduces inflationary pressures by increasing market productivity, eliminating supply restrictions, and improving institutional quality. Economic liberalization, adjustments in labor market rules, and improvements to the legal system are a few examples [32]. Moreover, controlling external variables like trade imbalances, commodity price shocks, and exchange rate swings is essential to managing domestic price stability. As summarized in Table 2, the aforementioned strategies differ in their mechanisms, strengths, and limitations.

Table 2. Pros & cons of key strategies for controlling inflation.

Strategy	Mechanisms	Strengths	Limitations
Monetary Policy	Regulates interest rates & money supply	Reduces demand-driven inflation	Slow down economic growth
Fiscal Policy	Adjust taxation and government spending	Fast impact on aggregate demand	Policy sensitive & reflects welfare
Inflation Targeting	Central banks set inflation goals	Build trust & stabilize expectations	Requires strong institutions
Structural Reforms	Improves productivity & removes market complexity	Long-term stability	Hard to implement

8. Methods

The secondary research method, also sometimes called the desk research methodology, was used to synthesize existing literature on inflation. A systematic search strategy was applied to identify relevant studies published between 2015 and 2025. Databases accessed included Scopus, Google Scholar, ResearchGate, and other peer-reviewed academic platforms. The following keywords and combinations were used during the search: *"inflation," "types of inflation," "demand-pull inflation," "cost-push inflation," "built-in inflation," "monetary policy and inflation," "fiscal policy and inflation," "inflation measurement,"* and *"inflation control strategies"*. Inclusion criteria required peer-reviewed journal articles published in the English language that directly addressed the types, causes, effects, measurement, or control of inflation and strictly followed the selected time frame. Exclusion criteria applied to non-English publications, editorials, news articles, blogs, opinion pieces, and other non-scholarly sources. To provide a thorough overview of the existing literature, this review broadly focused on synthesizing findings related to the types, causes, effects, measuring methodologies, and management strategies of inflation.

9. Discussion

This review comprehensively synthesizes the existing literature on inflation, types, causes, effects, measurement techniques, management strategies, and theoretical perspectives. A high rate of inflation damages economic stability and erodes purchasing power, while a moderate inflation rate can support growth. Demand-pull inflation is a widely studied type, particularly in relation to consumer expenditure and economic growth, whereas cost-push and built-in inflation receive less attention in developing countries. Measurement tools also have some limitations, CPI is widely used but subject to technical limitations while GDP deflators provide a broader viewpoint but require complex interpretation and high competencies. The literature shows that while foundational theories are central but real-world inflation dynamics are complex than any single model [32,33]. Although economic frameworks like Keynesian, Monetarist, and the Phillips curve clarify many aspects of inflation, they overlook labor market variations and the influence of emerging global shocks. Despite extensive research in this rising domain, there is still a limited understanding of the effects of inflation on various income groups [34], the role of global factors, and supply chain disruptions in shaping inflation trends, mainly in developing countries. Future researchers should focus on inflation in emerging economies, assess theoretical models in modern economic contexts, study their social and economic impacts, and develop new measurement methods.

10. Conclusion

Inflation has constantly been a significant and debated issue in economic studies across eras, attracting the interest of researchers, policymakers, and even ordinary citizens whose daily lives are directly exaggerated by rising prices. It seems to be a simple concept, but in fact, it is a complicated and multi-layered phenomenon and plays a pivotal role in shaping social welfare and economic stability. Emerging in varied forms such as demand-pull, cost-push, and built-in and each one requires a specially designed management policy, because a one-size-fits-all approach will not work. A strategy that works for controlling cost-push inflation, for instance, may be ineffective or even counterproductive when dealing with demand-pull inflation. The far reaching negative effects of inflation on economic growth, purchasing power, and investment highlight the necessity of effective policies. A comprehensive understanding of its diverse causes, adverse effects, measurement methods, and control mechanisms enables economists and governments to manage inflation more efficiently, thereby improving economic development. Policymakers should incorporate fiscal and monetary policies, adopt inflation-targeting strategies considering labor market conditions, and implement structural reforms to improve productivity and economic resilience.

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