

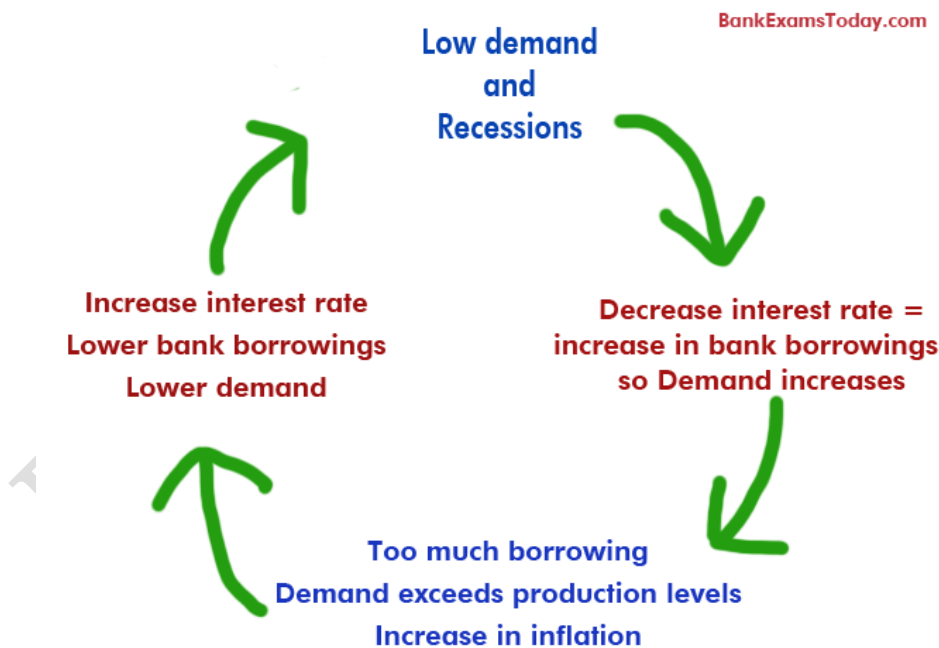
Relationship between Inflation and Interest rate



Inflation is the rise of prices of goods and services gradually overtime.

Interest is a major factor that impacts inflation rate. Today I am going to discuss various phases an economy faces to stabilize the prices.

Effect of Interest rate on Inflation



Impact of Interest on Inflation

Relation of Inflation and Interest

Phase I

Demand is very low in the economy, the unemployment rate is high. Government has two solutions,

- Increase production level or
- Decrease interest rate

Phase II

Short term solution the decrease in interest rate. Now people will get loans at lower rate of interest. This will give a short-term booster to the economy.

Phase III

As there are limited resources and people have infinite demands. People in the economy started purchasing more than production levels. Everybody started fulfilling their needs using funds from loans. This leads to high inflation rate

Phase IV

Inflation makes a direct impact on poor people in the economy. Now the government is looking for ways to decrease the inflation rate. The interest rate is increased is increased, now people borrow less and demand level decreases.