**Essay Question 1**

**Discuss why governments are concerned to keep up the rate of inflation at a low level. (13)** *(What are the advantages of low rate inflation?)*

**Introduction**

Inflation is a situation where there is a sustained and inordinate increase in the general price level when there is excess demand without or with an inadequate increase in supply. As the occurrence of high rate of inflation may bring about adverse effects on the economy but a mild rate of inflation may be beneficial to the economy, it is natural for the government to seek maintain the rate of inflation at a low rate.

**Main Body**

One such benefit of low rate of inflation is the positive stimulation it has on the level of investment and employment. When price level increases at a low rate, it will mean an increase in the total revenue, provided that the demand for goods is; inelastic. This implies that profitability will increase and induce producers to produce more and hence, there will be an increase in investment and subsequently increase the level of employment.

Low rate inflation will also help to prevent extensive unequal distribution of income since a large proportion of the population is fixed income earners. Fixed income earners will not be marginalized by the effects of excessive inflation and thus erode their purchasing in favour of those who are receiving their income pegged to price movement

Low rate of inflation will also mean that the purchasing power of the people is maintained and this will also mean that their ability and willingness to save is maintained. Consequently, there will be a considerable level of saving, enabling the economy a constant source of fund for investment.

Low rate of inflation can also help to prevent excessive rise in cost of livings enabling the workers to maintain their purchasing power and standard of living. The trade union will less likely to ask for excessive wage increase, which help to stabilize our cost of production.

Without excessive price change, there will be lesser wastage of resources since speculative activities are minimized. Investors with source of fund will not direct their investment on goods with speculative appreciation but instead on goods with production activities that will enhance the economic development of the economy.

Externally, a low rate of inflation is also beneficial, as it will help the country maintain its international competitiveness as an exporter and as a country for foreign investment. Lower rate price increase will mean that the cost of production can be maintained at considerable level, easily counteract by a rise in productivity. It will also mean the cost of business operation is kept low and competitive.

Low rate of inflation will enable the nation to maintain its export price and hence ensure that export demand will grow. At the same time, import expenditure will not rise excessive since local goods are still reasonably low and attractive to the -consumers. This will mean that a deficit balance of trade will not surface.

Without high rate of inflation, there will be no need of a corresponding contractionary monetary policy to curb inflation. This means that increase interest rate will not rise creating the influx of hot money and instability to the foreign exchange market. This will lead to excessive speculation dampening the economic development to the economy.

**Conclusion**

In conclusion, the occurrence of high rate of inflation is not desirable and the government will seek to maintain the inflation at a low rate as It has certain beneficial effect of the economy.