

Inflation and shrinkflation

- Inflation occurs when the cost of goods and services in the economy goes up over a sustained period of time. Inflation doesn’t happen overnight, and it also doesn’t happen when the cost of one particular good or service goes up.

- **Causes of Inflation**
- An increase in the supply (equipping) of money is the root of inflation, though this can play out through different mechanisms in the economy. A country's money supply can be increased by the monetary authorities by:
- Printing and giving away more money to citizens
- Legally devaluing (reducing the value of) the legal tender currency
- Loaning new money into existence as reserve account credits through the banking system by purchasing government bonds from banks on the secondary market (the most common method)
- In all of these cases, the money ends up losing its purchasing power. The mechanisms of how this drives inflation can be classified into three types: demand-pull inflation, cost-push inflation, and built-in inflation.

How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull



When demand for goods/service exceeds production capacity.

Cost-Push



When production costs increase prices.

Built-In



When prices rise, wages rise too, in order to maintain living costs.

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Shrinkflation

Inflation That We Rarely Notice

- Shrinkflation is a term made up of two separate words: shrink and inflation. The "shrink" in shrinkflation relates to the change in product size, while the "-flation" part refers to inflation—the rise in the price level.

- Shrinkflation is the practice of reducing the size of a product while maintaining its sticker price. Raising the price per given amount is a strategy employed by companies, mainly in the food and beverage industries, to stealthily boost profit margins or maintain them in the face of rising input costs.
- Shrinkflation is also referred to as package downsizing in business and academic research. A less common usage of this term may refer to a macroeconomic situation where the economy is contracting while also experiencing a rising price level.

- From a company perspective, shrinkflation is a useful way to boost or maintain profit margins without drawing too much attention. This tactic is most commonly executed in production costs and market compitition