# Why do prices rise? Inflation explained

Reading + Grammar: **cause and effect, and nominalisation**



## 1 KEY VOCABULARY

| | | |
|---|---|---|
| **consumer price index (CPI)** | *n.* | a measure of the average change in consumer prices |
| **basket** | *n.* | the fixed set of goods used to measure prices |
| **core inflation** | *n.* | inflation excluding volatile items such as food and energy |
| **purchasing power** | *n.* | what money can buy |
| **cost-push** | *adj.* | caused by rising production costs |
| **demand-pull** | *adj.* | caused by demand exceeding capacity |
| **money supply** | *n.* | the total amount of money in an economy |
| **expectations** | *n.* | what people believe will happen |
| **monetary policy** | *n.* | central bank decisions on interest rates and money |
| **volatile** | *adj.* | likely to change suddenly |

## 2 USEFUL PHRASES & EXPRESSIONS

- **Inflation stems from…** — *effect ← cause*
- **This can lead to higher prices.** — *cause → effect*
- **Prices are driven by energy costs.** — *identify the main driver*
- **Money loses purchasing power.** — *describe the effect on consumers*
- **a rise in prices** — *nominalisation of "prices rise"*
- **Expectations can become self-fulfilling.** — *explain a mechanism*

## 3 THE KEY POINT

**Cause → effect: lead to, result in, give rise to, trigger. Effect ← cause: stem from, result from, be driven by, be due to. Nominalisation** turns verbs into nouns for a formal style.

Lax monetary policy can **lead to** persistent inflation.

Cost-push inflation often **stems from** supply shocks such as high oil prices.

Prices rise when demand exceeds capacity. → **A rise in prices** follows when demand exceeds capacity.

## 4 QUICK PRACTICE

**Complete with due to, lead to, stem from or the noun form.**

1. Higher energy costs can ___ cost-push inflation.
2. Demand-pull inflation can ___ strong consumer spending.
3. The price increase was ___ a poor harvest.
4. Prices grew quickly. → The rapid ___ of prices worried investors.

## 5 ANSWERS & EXPLANATION

**Answers: 1 lead to · 2 stem from · 3 due to · 4 growth**

**lead to** goes from cause to effect; **stem from** goes from effect back to cause; **due to** + noun phrase. Nominalisation: *grow → growth*.

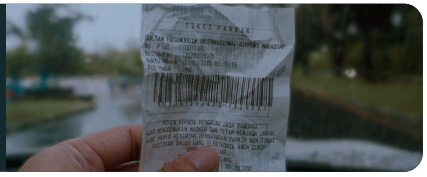
**Today's resource:** Inflation: Prices on the Rise (International Monetary Fund) · https://www.imf.org/en/publications/fandd/issues/series/back-to-basics/inflation

## 6 CULTURE & BUSINESS INSIGHT

★ **Why inflation matters for business**

Inflation affects prices, salaries, contracts and savings. The IMF explains that it can come from lax monetary policy, supply shocks, strong demand or people's expectations — and the right business response depends on the cause.

> *Understand the cause before you choose the response.*





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