

JIM C – QUIZ OF THE WEEK

MONDAY – 12/01/08

Deflation, not inflation, is the greatest concern to the U. S. economy.

HOW DID THE TERM “*DEFLATION*” ORIGINATE?

***American Heritage Dictionary:* A persistent decrease in the level of consumer prices or a persistent increase in the purchasing power of money because of a reduction in available currency and credit.**

***Online Etymology:* 1891 – Deflate, in reference to balloons, coinage is based on inflate. Latin *deflare* meant "to blow away," but in the modern word the prefix is taken in the sense of "down." *Deflation* in reference to currency or economic situations is from 1920.**

***Impact:* Since reductions in general price level are called “*deflation*”, a deflationary spiral is when reductions in price lead to a vicious circle, where a problem exacerbates its own cause. Sustained declining prices can create a vicious spiral of negatives such as closing factories, shrinking employment and incomes, and increasing defaults on loans by companies and individuals.**

***Solution:* Resolve credit crisis by expanding the supply of money or by the fiscal authority to increase demand and allow borrowing at interest rates which are below those available to private entities.**

***Conventional Wisdom:* Deflation = Increase in the value of money**

***Moment of Zen:* Cash is king when there is no credit**