INFLATION;

Inflation measures annual percentage increase in prices. Most usual measure is that of consumer prices i.e. CPI. Rates of inflation are also published for commodity prices, food prices, house prices, import prices etc.

Types of inflation;

Demand pull inflation; caused by continuing rises in aggregate demand. Firms will respond to this rise by raising prices. How much they raise prices is dependent on how much their costs rise as a result of increasing output. The less slack there is in the economy, the more firms respond to a rise in demand by raising their prices.
Typically associated with a booming economy, argued as the counterpart of demand deficient unemployment. Recession= Demand Deficient Unemployment high, Demand Pull Inflation low, Boom= Demand Pull Inflation high, Demand Deficient Unemployment low.

Cost push inflation; associated with continuing rises in costs and hence continuing leftward shifts in the AS curve. These shifts occur when costs of production rise independently of aggregate demand.
Firm faces rise in cost->respond partly by raising prices t consumer and partly by cutting back on production. How much firms raise prices depends on shape of AD Curve.
The less elastic the Aggregate Demand curve=the less sales will fall as a result of any price rise, and hence the higher they will be able to charge consumers.
Opposite of demand pull inflation; in demand pull output and employment tend to rise. Cost push output and employment falls.