

ENGLISH LEARNING
FOR CURIOUS
MINDS



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Episode #157

Inflation

11th May, 2021

[00:00:00] Hello, hello hello, and welcome to English Learning for Curious Minds, by Leonardo English.

[00:00:12] The show where you can listen to fascinating stories, and learn weird and wonderful things about the world at the same time as improving your English.

[00:00:16] I'm Alastair Budge and today we are going to be talking about Inflation.

[00:00:27] Now, the word inflation probably doesn't sound particularly interesting to you, but it is actually a really interesting [phenomenon](#)¹.

[00:00:36] And, it is one that affects every single one of us.

[00:00:40] Prices rise, and sometimes go down.

[00:00:43] The money in your pocket might buy more or less of something at any given point in time.

¹ a situation that is observed

Inflation

[00:00:49] So today we are going to try to understand why that actually happens.

[00:00:55] What actually is inflation?

[00:00:57] What causes it to happen?

[00:00:59] Is it a good, or a bad thing?

[00:01:02] And what can you do about it?

[00:01:04] It's a really interesting subject, so let's [get stuck in](#)² right away.

[00:01:10] Inflation is something that is relevant to all of us, and is a good thing to understand at any point in time.

[00:01:17] But I thought that now is a particularly [pertinent](#)³ time, a particularly important time, to understand it, for a few reasons.

[00:01:27] Firstly, governments around the world are printing [vast](#)⁴ amounts of money to [stimulate](#)⁵ economies that have been hit badly by COVID-19.

² start doing something that is exciting

³ very relevant to the matter we are discussing

⁴ extremely large

⁵ give hope and confidence for the development of something

Inflation

[00:01:36] If there is more money that exists, then each unit of money, typically, is worth less, and prices [tend](#)⁶ to rise.

[00:01:45] Secondly, in almost all of the episodes where we talk about the price of something in the past, I try to explain what that number would be in today's money.

[00:01:55] I wanted to explore this theme a little bit, as it's really interesting to ask ourselves what actually causes the price of things to go up.

[00:02:05] And a final reason is related to the relationship between inflation, [wages](#)⁷, and political stability.

[00:02:13] In this point we'll explore the reason that a pay rise doesn't always mean an actual pay rise, as nurses in Britain recently found out.

[00:02:23] So, now is the time to explore this fascinating, and very important subject.

[00:02:29] No matter how old you are, you probably have memories from your childhood of how much certain things cost.

[00:02:36] And the costs, whether that's for your favourite chocolate bar, for a magazine you used to buy, or for a toy, will almost [undoubtedly](#)⁸ have been lower when you were a child compared to what they are now.

⁶ regularly move in a particular direction

⁷ the money earned by an employee

⁸ without doubt, certainly

Inflation

[00:02:50] I'll give you a few examples from my childhood.

[00:02:53] There was a [comic book⁹](#) I used to read called The Beano. I can remember clearly that it used to cost 38p, 38 pence, I guess in around 1995.

[00:03:06] I just checked now and it's £2.75, it's now 7 times more expensive.

[00:03:12] One of the most popular toys, when I was about 6 or 7 was something called a Mighty Max.

[00:03:19] It cost £5.

[00:03:21] It doesn't seem like you can buy them anymore, but similar toys are around £30 to £40.

[00:03:28] Now, I was born in 1987, not so long ago, in a country that hasn't experienced high inflation in my lifetime, but depending on when you were born, and the country you live in, prices might have gone up 10, 100, 1000 times compared to when you were growing up.

[00:03:48] You [get the picture¹⁰](#).

[00:03:50] The price of stuff goes up.

⁹ a magazine containing stories told in pictures

¹⁰ understand the situation

Inflation

[00:03:52] The term for this is inflation, and in this case it's consumer price inflation, an increase in the price that we, as consumers, pay for goods and services.

[00:04:04] So, let's [dig down](#)¹¹ into why this actually is.

[00:04:09] There is no central person or government official telling the magazine or the toy shop that they should increase their prices.

[00:04:17] They increase prices either because they need to, because their costs have increased, or because they can, because there are enough people who are prepared to pay these higher prices.

[00:04:30] There are, in general, three different categories of reasons for inflation, according to economists.

[00:04:37] The first is what they call "Cost-push inflation".

[00:04:41] The idea is that the costs for businesses have increased, therefore they need to pass on these costs to customers in order to still make a profit.

[00:04:52] There are thousands of reasons why costs might have increased, from workers asking for higher [wages](#) to bad weather, from a ship getting [stuck](#)¹² in the Suez canal through to political [conflict](#)¹³.

¹¹ investigate, examine carefully

¹² unable to move

¹³ serious disagreement or argument

Inflation

[00:05:05] In my example of the Beano magazine, if the cost of paper increases, if the people who draw the [comics¹⁴](#) are paid more, and if the rent in the shop where I buy the [comic book](#) goes up, well the shop will need to charge me more than 38p.

[00:05:21] So, that's the first reason, "Cost-push inflation".

[00:05:26] The second category is what's called "Demand-Pull Inflation".

[00:05:30] This is what happens when people have more money, and the demand for something increases.

[00:05:36] If we go back to our example of my Beano magazine, imagine that instead of one 8-year-old Alastair wanting to buy a copy of the Beano, there are 10,000 other little boys wanting to buy a copy, and only 1,000 that exist.

[00:05:53] The magazine could say, well, let's see how much these little boys really want their copy of the Beano, and let's increase the price to 48p.

[00:06:03] 1,000 little boys [dutifully¹⁵](#) buy the magazine at 48p, and so the price becomes 48p.

[00:06:12] Of course, this is a [simplistic¹⁶](#) example, but for goods such as chocolate, it is a very real example.

¹⁴ pictures in a magazine, used for telling a story

¹⁵ in an obedient way, as if it were their duty

¹⁶ simple, facing the problem as if it were simpler than it is

Inflation

[00:06:21] Demand for chocolate has [boomed](#)¹⁷ in the past decade, as consumers in countries such as India and China now have the [disposable income](#)¹⁸ to buy it.

[00:06:31] And if the amount of chocolate being produced increases at a lower rate than the amount of people who want to buy it, then the price is likely to go up.

[00:06:41] If you are a long-term chocolate lover, no doubt you will have noticed that the price you pay for it has been going up.

[00:06:49] And the final reason or final category is what's called "Built-In Inflation".

[00:06:56] This is essentially the idea that people expect the prices to go up, so they go up.

[00:07:03] If you have lived in a society where prices do go up, and [wages](#) go up, then that's what they do.

[00:07:09] Prices go up, therefore [wages](#) go up, therefore people have more money, so they spend more, so prices go up, and the circle continues.

[00:07:18] So, these are some of the broad causes of inflation, according to economists.

[00:07:24] We aren't going to go into huge detail on the specifics of how inflation is calculated, but it's worth spending just a couple of minutes addressing the subject, as

¹⁷ increased a lot

¹⁸ the money left to be spent, after having paid for essential things like taxes, food etc.

Inflation

newspaper headlines and TV news programmes are filled with statistics about inflation, but it's not always exactly clear what they mean.

[00:07:46] Essentially, there are different ways to measure inflation, but the one that's most commonly used is something called a Consumer Price Index.

[00:07:55] What this does is calculate the total cost of a selection of different things that people buy, from bread and milk through to medicine, mobile phone contracts, and so on.

[00:08:08] The price for everything is added up, adjusted for how regularly you buy it and how much of it you buy, and you get a number at the end.

[00:08:18] [For sake of ease¹⁹](#), let's say the number is 100.

[00:08:22] If next year the number for the same basket of goods is 103, then the rate of inflation is 3%.

[00:08:31] Simple, right?

[00:08:32] It might be simple to calculate, but understanding it and controlling it isn't quite so easy.

[00:08:40] And this brings us nicely on to our next question.

[00:08:44] Is inflation good or bad?

¹⁹ to make it easier

Inflation

[00:08:46] Should we be happy that prices are rising, or should we not?

[00:08:51] Of course, there are multiple different theories about this, and the answer depends on who you speak to, and how much the price rises.

[00:09:00] There are many [instances²⁰](#) in history of [hyperinflation²¹](#), when the price rises at an uncontrollable level, and that is undoubtedly a bad thing.

[00:09:11] You are probably familiar with the examples of Weimar Germany, of Zimbabwe, and more recently, of Venezuela.

[00:09:20] In all of those countries the price of goods started rising quickly, then more quickly, and before long there was a situation where you had to carry money in large suitcases just to buy a loaf of bread.

[00:09:33] Obviously, that's a terrible thing for an economy and a society.

[00:09:38] It means that any money you have is soon [worthless²²](#), and a society without any [viable²³](#) means of exchange runs into huge problems.

[00:09:49] But, there is an argument that inflation, at a low level, between 1 and 3%, is a positive thing for an economy.

²⁰ facts as examples

²¹ the condition where the price of everything increases significantly and very quickly

²² without value

²³ able to succeed

Inflation

[00:09:59] Why?

[00:10:00] Because it [encourages](#)²⁴ people with savings to invest their money in productive things that will help grow the economy.

[00:10:08] Let's say inflation is at 3% and you have €100,000.

[00:10:14] In 1 year you will need to have €103,000 to buy what your €100,000 would have bought today.

[00:10:22] In 10 years you would need to have €134,000 to buy what you could buy today for €100,000.

[00:10:31] So, instead of leaving money in a bank, you might invest it in a business, in the [stock market](#)²⁵, or you could just buy stuff, because you know that your money is worth less and less every year, so it is in your advantage to spend it now rather than later.

[00:10:48] And spending money is what turns the wheels of the economy.

[00:10:53] Now, if you don't have savings, or money sitting in the bank, then inflation only really matters to you if your [salary](#)²⁶ increases at a lower rate than inflation.

²⁴ gives hope and confidence to someone

²⁵ a market for exchanging company ownership shares

²⁶ a fixed amount of money as pay for an employee

Inflation

[00:11:05] I mean, if the money you make every month increases more slowly than the prices increase.

[00:11:11] If your [salary](#) increases at a higher rate than inflation, and assuming that the rate of tax remains the same, then you will end up being able to buy more every month.

[00:11:23] Let's take another example here, because unfortunately my Beano [comic book](#) one won't work in this case.

[00:11:29] Let's say that you have expenses of €1,000 every month, and you have a [salary](#) of €1,500.

[00:11:37] Every month you spend €1,000 on things you need, and you have another €500 for things you want.

[00:11:45] If the price of everything increases by 10%, you might think "oh, no, I'm going to have to spend €1,100 a month buying exactly what I used to spend €1,000 on".

[00:11:58] But if your [salary](#) increases at 15%, let's say, you now have €1,725, you can still cover your expenses, and you now have €625 for everything else.

[00:12:13] You're ok.

[00:12:14] Now, the point here is that inflation is important if it increases at a higher rate than your [salary](#).

[00:12:22] If you live in the UK, or you follow UK news, you might have seen that this problem has been something that has been all over the news in the past few months.

Inflation

[00:12:32] The Prime Minister, Boris Johnson, announced that nurses would be receiving a 1% pay rise next year.

[00:12:40] Although he was no doubt hoping to be [congratulated²⁷](#) for this, because who doesn't support nurses being paid more, especially after what must have been a [horrific²⁸](#) year, he was widely criticised for this.

[00:12:54] Why?

[00:12:55] Because the [target²⁹](#) for UK inflation is 2%, and this year it has been around 1%, meaning that this isn't a pay rise at all.

[00:13:06] If your [salary](#) goes up by 1% but the cost of everything else has gone up by more than 1%, the number on your [payslip³⁰](#) might have increased, but so have the numbers at the supermarket, so you can't buy anything more than before.

[00:13:21] Now, this brings us back to an important point, and it's about the value of money, and why money only works if you trust the government to do a good job of managing the economy.

[00:13:34] Until 1931, the UK had something called the gold standard.

²⁷ expressed pleasure to a person who did something good

²⁸ very bad and shocking

²⁹ objective, goal

³⁰ a piece of paper given to the employee to show how much money they have earned

Inflation

[00:13:39] This meant that every pound that existed was **backed**³¹ by gold that the government kept in its **vaults**³².

[00:13:47] Your paper money could be **swapped**³³ for gold, it could be exchanged for a physical object, **guaranteed**³⁴ by the government.

[00:13:56] In 1931 the UK **abolished**³⁵ the gold standard, meaning that a pound on its own is now **worthless**, really.

[00:14:05] You can't go to the Bank of England and say 'can I **swap**³⁶ my pound for gold?', they would smile at you nicely and politely ask you to leave the building.

[00:14:15] The value of money, whether this is pounds, Euros, dollars, or any other **currency**³⁷, is only because you can use it to do things you actually need or want to do, whether that's buying bread at a baker, paying rent to your landlord, or anything else you so choose.

³¹ supported financially

³² a usually underground room used for storage

³³ exchanged

³⁴ made secured (for an agreement)

³⁵ ended an activity or practice officially

³⁶ change one for the other

³⁷ the money that is used in a particular country

Inflation

[00:14:34] The actual number in your bank account or on your [payslip](#) is [irrelevant](#)³⁸; the only thing that matters is what you can do with it.

[00:14:43] The deal that we all [implicitly](#)³⁹ make is that we trust that our money won't lose its value too quickly, and for that to happen, the government needs to keep a very close eye on inflation.

[00:14:57] One of the main roles of government is to control inflation, precisely so that it remains at a [steady](#)⁴⁰ rate, and people can trust what their money will be worth in the future.

[00:15:08] Controlling inflation means political stability.

[00:15:12] If it's too high, well it [runs the risk](#)⁴¹ of running out of control and becoming [hyperinflation](#), as was the case in places such as Weimar Germany, Zimbabwe and Venezuela.

³⁸ not connected to any use, unimportant

³⁹ in a way that is suggested, but not confirmed directly

⁴⁰ regular, without happening suddenly

⁴¹ there is a possibility of something unpleasant happening

Inflation

[00:15:24] In all of these countries the [currency](#) became [worthless](#), the state essentially [collapsed](#)⁴², and in the case of Weimar Germany it [cleared a path](#)⁴³ for the rise of Hitler and the Nazi party.

[00:15:38] Indeed, the country in Europe that is probably most afraid of high inflation is Germany, given that it experienced [firsthand](#)⁴⁴ what high inflation rates can lead to.

[00:15:50] But, what if there were no inflation?

[00:15:53] What if there were a way to stop this happening, and to stop prices rising?

[00:15:59] Well, there sort of is.

[00:16:01] The opposite of inflation is called deflation, and it's like inflation but in reverse. Every year things get a little bit cheaper.

[00:16:10] Every year wages tend to [reduce](#)⁴⁵.

[00:16:13] And if you are thinking that this is just theoretical, it's not.

⁴² failed completely

⁴³ cleared the way, removed any obstacles

⁴⁴ with their own eyes, from personal experience

⁴⁵ become smaller in amount

Inflation

[00:16:18] Japan has been **undergoing**⁴⁶ a period of deflation **on and off**⁴⁷ since the 1990s, and has **struggled**⁴⁸ to get out of it.

[00:16:27] It isn't quite so tragic as **hyperinflation**, but once deflation starts, it's very hard to turn it around.

[00:16:35] In a country with deflation, your money becomes more and more valuable over time, which means there is less of an **incentive**⁴⁹ to spend or invest, so the economy doesn't grow as fast.

[00:16:48] And that is exactly what Japan has been suffering from.

[00:16:51] Its economy has been almost flat over the past 30 years while the US economy, for example, has tripled in size.

[00:17:02] Now, I want to finish this exploration into the word of inflation with a brief discussion of the relationship between bitcoin and inflation.

[00:17:12] Episode 122 from a few months ago goes into this in much greater detail, so I'd recommend listening to that if you're interested in exploring this area further.

⁴⁶ experiencing something unpleasant

⁴⁷ some times, not continuously

⁴⁸ experienced difficulty in order to do something

⁴⁹ reason

Inflation

[00:17:24] One of the main reasons believers in Bitcoin are so [fanatical⁵⁰](#) about it is that it doesn't suffer from inflation.

[00:17:31] There are a fixed number of bitcoins in existence, so, [unlike⁵¹](#) dollars, pounds or Euros, you can't add more bitcoin to [the monetary system⁵²](#).

[00:17:42] One of the causes of inflation, as we learned about earlier with the Demand-Pull Effect, is due to there being more money in circulation so that prices go up.

[00:17:53] This can't happen with bitcoin, because the quantity of bitcoin is fixed.

[00:17:58] Now, an important point to note is that, although the bitcoin price has increased significantly, this isn't due to price inflation; in fact, you now need significantly fewer bitcoin to buy the same amount of things as a few years ago.

[00:18:15] 1 bitcoin 10 years ago might have bought you a slice of pizza. Now it will buy you a Porsche.

⁵⁰ extremely enthusiastic

⁵¹ different from

⁵² the system by which a government provides money in its economy

Inflation

[00:18:22] OK, if you have got this far, congratulations, it's been quite an economics-heavy episode, and I know there is quite a lot of [jargon](#)⁵³, of complex [terminology](#)⁵⁴ in there.

[00:18:34] The reality is that inflation is still something that we don't completely understand.

[00:18:40] Economics isn't an exact science, and if you look at a chart, a graph of inflation over time, it jumps up and down [seemingly](#)⁵⁵ randomly.

[00:18:51] Economists and [policymakers](#)⁵⁶ have ideas about how to control it, but really there are millions of different factors that [influence](#)⁵⁷ it.

[00:19:00] Economics is really a social science that tries to understand human behaviour.

⁵³ special words or phrases that are used in a particular environment

⁵⁴ special words or expressions related to a particular subject

⁵⁵ appearing

⁵⁶ people responsible for making general economic plans

⁵⁷ affect

Inflation

[00:19:07] And we human beings are [unreliable⁵⁸](#) and [unpredictable⁵⁹](#), and the world is an [unstable⁶⁰](#) place.

[00:19:15] The [bargain⁶¹](#) that we all make is that we trust the government to keep inflation under control. Normally, governments manage this quite well.

[00:19:24] But when they don't, well you just need to look at Weimar Germany, Zimbabwe, or Venezuela to see what the consequences can be.

[00:19:34] OK then, that is it for today's episode on inflation.

[00:19:39] I hope it's been an interesting one, that you've learnt something new, and the next time you see that the price has gone up for your favourite chocolate bar, your favourite magazine, or your landlord, then perhaps this will give you an idea about some of the reasons why that might be.

[00:19:56] As always, I would love to know what you thought of this episode, especially if you have lived either in a country or through a period of high inflation.

[00:20:06] You can head right into our community forum, which is at community.leonardoenglish.com and get chatting away to other curious minds.

⁵⁸ not able to be trusted

⁵⁹ likely to change suddenly and without reason

⁶⁰ likely to change, not safe

⁶¹ agreement, deal

Inflation

[00:20:16] You've been listening to English Learning for Curious Minds, by Leonardo English.

[00:20:21] I'm Alastair Budge, you stay safe, and I'll catch you in the next episode.

[END OF EPISODE]

Key vocabulary

Word	Definition
Phenomenon	a situation that is observed
Get stuck in	start doing something that is exciting
Pertinent	very relevant to the matter we are discussing
Vast	extremely large
Stimulate	give hope and confidence for the development of something
Tend	regularly move in a particular direction
Wages	the money earned by an employee
Undoubtedly	without doubt, certainly
Comic book	a magazine containing stories told in pictures
Get the picture	understand the situation
Dig down	investigate, examine carefully
Stuck	unable to move

Inflation

Conflict	serious disagreement or argument
Comics	pictures in a magazine, used for telling a story
Dutifully	in an obedient way, as if it were their duty
Simplistic	simple, facing the problem as if it were simpler than it is
Boomed	increased a lot
Disposable income	the money left to be spent, after having paid for essential things like taxes, food etc.
For sake of ease	to make it easier
Instances	facts as examples
Hyperinflation	the condition where the price of everything increases significantly and very quickly
Worthless	without value
Viable	able to succeed
Encourages	gives hope and confidence to someone
Stock market	a market for exchanging company ownership shares
Salary	a fixed amount of money as pay for an employee

Inflation

Congratulated	expressed pleasure to a person who did something good
Horrific	very bad and shocking
Target	objective, goal
Payslip	a piece of paper given to the employee to show how much money they have earned
Backed	supported financially
Vaults	a usually underground room used for storage
Swapped	exchanged
Guaranteed	made secured (for an agreement)
Abolished	ended an activity or practice officially
Swap	change one for the other
Currency	the money that is used in a particular country
Irrelevant	not connected to any use, unimportant
Implicitly	in a way that is suggested, but not confirmed directly
Steady	regular, without happening suddenly
Runs the risk	there is a possibility of something unpleasant happening

Inflation

Collapsed	failed completely
Cleared a path	cleared the way, removed any obstacles
Firsthand	with their own eyes, from personal experience
Reduce	become smaller in amount
Undergoing	experiencing something unpleasant
On and off	some times, not continuously
Struggled	experienced difficulty in order to do something
Incentive	reason
Fanatical	extremely enthusiastic
Unlike	different from
The monetary system	the system by which a government provides money in its economy
Jargon	special words or phrases that are used in a particular environment
Terminology	special words or expressions related to a particular subject
Seemingly	appearing
Policymakers	people responsible for making general economic plans

Inflation

Influence	affect
Unreliable	not able to be trusted
Unpredictable	likely to change suddenly and without reason
Unstable	likely to change, not safe
Bargain	agreement, deal

We'd love to get your feedback on this podcast.

What did you like? What could we do better?

What did you struggle to understand?

Let us know in the forum community.leonardoenglish.com