**Econ Paper**

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**TEXT:**

Article: How Does the US Economy Work?

<https://www.thebalance.com/how-does-the-u-s-economy-work-4056835>

**Article Description:**

This article discusses the most common economic concepts that influence the economy of the US. The factors that contribute to the recession and the influence of Gross domestic products and demand and supply are thoroughly discussed in the article.

**Discussion:**

The most important concept used in the article is inflation. The causes and impact of inflation are discussed thoroughly in the article. Concept of inflation is tricky but simple. Inflation refers to the increase in the prices of goods and services over a particular period of time. In economic terminology, it can be explained as that people have to pay more to get certain products and services, from getting a new haircut, to buying a new milk crate. Inflation affects all aspects of human life and increases the cost of living(“Inflation,” n.d.).

It reduces the purchasing power of the common man and the businessmen in terms of each unit of currency. It reduces the value of a currency in the global market. The more prices rise the fewer people can buy in a particular amount in comparison to the time when inflation rates are lower. It increases the feelings of uncertainty in the consumer market. It is attributed by the percent increase or percent decrease in prices during a specified period, which is usually over a period of month or year. For example, if the inflation rate for milk is 2 percent in a year, its price will be 4 percent in the next year or month. If the inflation rate is above 50 percent in one month it is considered as hyperinflation. But if this inflation occurs at the time of recession it is called stagflation, which will result in the rising prices of gold and stock, this situation will be called asset inflation. One cycle of inflation leads to another. Two main types of inflation are demand-pull inflation and the other one is called cost-push inflation. In demand-pull inflation occurs when demand beats supply of goods and services. In this situation of scarcity, the buyer becomes desperate for the product and become willing to pay more. This is also a common type of inflation in the US. The second type of Cost-Push inflation occurs when supply is restricted but demand is not restricted(Amadeo, n.d.-b).

In the book inflation concept is defined as “quantitative measure of the rate at which the average price level of selected goods and services in the economy increases over a period of time”(Tucker, 2010).

In the article, this concept used as "Inflation is difficult to stamp out. Once it occurs, people begin to expect ever higher prices. They will buy now before prices go up more in the future. That increases demand even more.”(Amadeo, n.d.-a)

In these lines, the influence of inflation over the population is explained. The concept defined here is demand-pull inflation. It is correctly used in these lines of the article. It is a common human behavior that when there is a scarcity of some essential product, they want to buy it in large quantities and stock it so that they stay uninfluenced by the reduced supply of product in the future. But overall when the demand is more and supply is less, tis further stocking and buying off the product, further reduces the supply thus results in increased demand. This behavior further intensifies the inflation in the community. Currently, in the US, the inflation rate is on the high rise according to the Bureau of Labor Statistics. The cost of living is increasing at a rapid rate which is resulting in people feeling unable to afford the living cost.

**References**

Amadeo, K. (n.d.-a). How Does the US Economy Work? Retrieved April 18, 2019, from The Balance website: https://www.thebalance.com/how-does-the-u-s-economy-work-4056835

Amadeo, K. (n.d.-b). Why Inflation Is as “Violent as a Mugger.” Retrieved April 18, 2019, from The Balance website: https://www.thebalance.com/what-is-inflation-how-it-s-measured-and-managed-3306170

Inflation. (n.d.). Retrieved April 18, 2019, from Econlib website: https://www.econlib.org/library/Enc/Inflation.html

Tucker, I. B. (2010). *Economics for Today*. Cengage Learning.