

4. Rate of inflation:

March 2005	1.9%
April 2005	1.9%

Source: *Working Lunch 17/05/05*

The steady inflation rates in the table above fall within the 2.0% target set by the Chancellor of the Exchequer and the Confederation of British Industry is pleased that this aspect of the United Kingdom economy is still well under control. These figures are in stark contrast to the figures of the late 1980s and early 1990s when **inflation** rates reached a peak of between 9% and 10%.

(a) Briefly explain what is meant by the term *inflation*.

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(b) Analyse possible reasons why businesses regard **high** rates of inflation as a significant problem. [6]

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