Inflation Rate Formula

Inflation rate is defined as the percentage increase in the price levels of the basket of selected goods and services, over a time period.

The rise in inflation rate indicates that there is a decline in the purchasing power of the currency and as a result, there is an increase in the Consumer Price Index.

In other words, the inflation rate is said to be the rate at which the prices of goods increases when the purchasing power of currency is declining.

One of the most common causes of inflation in an economy is the increase in money supply.

Inflation rate is keenly observed by the government and central banks as they need to make appropriate changes in the monetary policy. Inflation rate serves as an indicator of the position of the economy.

Inflation rate is determined as the rate of change that takes place in the consumer price index, over a time period.

The formula for calculating inflation rate is as follows

Inflation Rate = (Current Period CPI – Prior Period CPI) / Prior Period CPI