

1 **The deflation dilemma**

2 (original at http://www.economist.com/node/16274363?story_id=16274363)

3 Should you fret more about inflation or deflation? Few questions matter
4 more for investors and policymakers, yet few seem so uncertain. Financial
5 markets are sending mixed signals. Economists also differ in their
6 assessment of where the greater risks lie, but most of them think
7 deflation is the bigger short-term danger in big, rich economies, whereas
8 inflation is an immediate worry in many emerging economies and,
9 potentially, a longer-term danger in rich ones.

10 In America and the euro area deflation is uncomfortably close, in Japan it
11 is a painful reality. All that is despite near-zero interest rates and other
12 efforts by central banks. Nor is there much reason to expect a sudden
13 turnaround. Broad measures of money and credit growth are stagnant or
14 shrinking in all three places. Unemployment is high and there are large
15 gaps between the economies' actual output and their potential. In the
16 euro area, especially, austerity plans will further sap domestic demand.
17 Thankfully, there is unlikely to be a sudden price plunge, not least
18 because ordinary people still expect consumer prices to rise modestly.
19 These expectations of future inflation help anchor actual prices. But the
20 short-term balance of pressures clearly points downward.

21 So, too, does the balance of risks. Deflation is more dangerous than most
22 forms of inflation. When prices fall consumers put off their purchases in
23 anticipation of even greater bargains later and the economy becomes
24 stuck in a vicious cycle: weak spending leads to sliding prices. In heavily
25 indebted economies falling prices would increase the real burden of
26 consumers' and governments' debts. Deflation is also harder to fight than
27 inflation. The world's big three central banks should therefore worry most
28 about falling prices.

Questions

- 1) Is inflation an immediate threat for the rich economies according to the article?
- 2) What have banks in Europe, America and Japan been doing to prevent deflation? Have their efforts been successful?
- 3) Why is a turnaround in the current situation unlikely?
- 4) Which of the three areas of the world mentioned in question 2 is especially expected to suffer as a result of budget cuts?
- 5) Why are we not seeing a drop in prices?
- 6) Explain the meaning: 'But the short-term balance of pressures clearly points downward.' (lines 19 to 20).
- 7) What word from the previous sentence does the word 'so' (21) refer to?
- 8) What is the bigger problem for the economic world of today – inflation or deflation? And why?
- 9) Scan the text for synonyms of 'decrease' and note them down.
- 10) What are your expectations for the future? Can you actually imagine what a deflation would be like? Are you happy at the prospect of austerity measures adopted by the next Czech government?

Vocabulary

be sending mixed signals (line 5)– pointing to different directions, ambiguous, unclear

immediate worry/problem etc. (8 line) – a problem that is here right now and need to be dealt with quickly

sap – (line 16) to weaken, to drain or remove energy from something.

put off (line 22) – to postpone, delay, defer that is change an event to a later time or date

You can find additional explanation and more examples to help you understand and use English words and phrases at <http://dictionary.reference.com>, <http://dictionary.cambridge.org/>, or <http://www.merriam-webster.com/>

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