The Inflation’s Affect on Investors

This article explains the effects of rising prices and inflation on investors in the stock market. While oil prices continually keep rising, inflation has also risen and “investors nervously [await] the Federal Reserve’s latest assessment of pricing pressures and interest rates.” Oil prices have topped $57 a barrel, with no sign of going down, which has put considerable pressure on the market. Furthermore, it is expected that the Federal Reserve will raise interest rates soon. Raising the interest rates would make it more difficult for growing companies to buy new capital. All of these factors have caused investors to wait for answers, which has caused less investment, and many large companies’ stocks to fall, such as Time Warner and Novartis. The article does, however, mention that a large merger between pharmaceutical and technology sectors “[kept] the Nasdaq’s losses minimal.”

The concepts from chapters eight and eleven are directly related to this article. One of the key points of the article is that investors are holding back because of the prospect of higher interest rates and increased inflation. In chapter eight, the savings supply curve is discussed. The basic concept behind this theory is that the higher the interest, the more income is saved. This is what is occurring in the market: investors are saving money because the opportunity cost of investing it is higher. This is also illustrated in chapter eleven with the Demand for Money curve, which states that the higher the opportunity cost of holding money, the lower is the quantity of real money demanded. This means that people are also going to be less interested in buying from investors. Finally, the theories behind inflation in chapter 11 explain why it is expected that the fed will raise interest rates. If real GDP exceeds potential GDP, there is an
inflationary gap that the Fed wants to eliminate. To do this, they must “tighten” the economy by decreasing the money supply and raising the interest rates. This causes a decrease in aggregate demand and thus causes the economy to “cool”.

Word Count: 346