ARTICLE EVALUATION

Recently in United Kingdom- a powerful and wealthy economy, there has been an issue being discussed with growing worry. The problem, not so strange to most countries in the world, is inflation, more specifically "the surge in UK inflation rate" in 2005. I will be evaluating on the article "UK inflation drops to Bank target" by the BBC which only focuses on this problem.

Brief summary:

The main issue in the article is the drop in the inflation rate in 2005 in three successive months, what causes have led to such a decrease after months of increasing inflation, what actions have been taken to bring down the rate of inflation and the effects that such a drop created.

The major concepts involved in the article are inflation itself, CPI, RPI, inflation rate, cost push inflation, interest rate. The first concept, inflation itself is actually a sustained increase over a period of time in the general price level, in other words a fall in the real purchasing power of money. To understand about inflation, another concept is involved which is CPI: The consumer price index (CPI)-the measure of the consumer price level. What is CPI? CPI reports the cost of a fixed "market basket" of consumer goods and services over time. The formula of calculating CPI for a particular year is found as follows:

$$\text{CPI} = \frac{\text{Price of the most recent market basket in the particular year}}{\text{Price of the market set out to be the base market for comparison}} * 100$$

The article is also involves the concept of RPI which is retail price index-It is "an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly",(National statistics-UK). CPI excludes a number of items that are included in RPI. The CPI however includes the residents of institutional households such as student hostels, and also foreign visitors to the UK while RPI does not. They also have specific differences in price measurement. But, in terms of their basic usability, there is little to choose between them. Both are published each month, to a common timescale, and are subject to minimal revisions.

However, the CPI coverage of spending and households is based on the National Accounts and so the CPI benefits from greater coherence with macroeconomic data and makes for better comparisons of inflation in different countries. Furthermore CPI is more commonly used in other countries such as United States. Therefore in this article analysis, I will mainly use CPI, a more common method of measuring inflation.

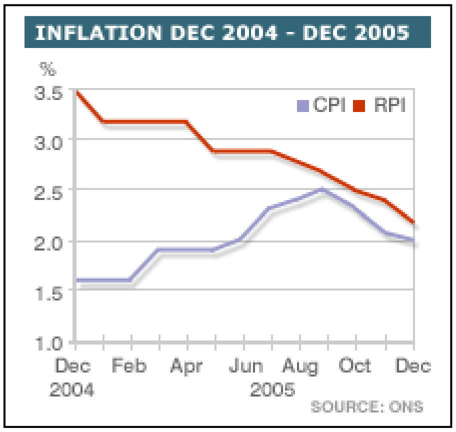
The percentage change in the CPI of two consecutive years is called the Inflation Rate. The higher the inflation rate, the higher prices are rising.

For example: in the article, observing the graph plotted the inflation spike which is 2.5 % in September and the upward incline since January 2005 can be easily spotted

Cost push inflation occurs when firms increase prices to maintain or protect profit margins after experiencing a rise in their costs of production.

The final concept is **interest rate** which is the price a borrower pays for the use of money he does not own, and the return a lender receives for deferring his consumption, by lending to the borrower. Interest rates are normally expressed as a percentage over the period of one year.

Below I will present the important facts in the article (highlighted in bold) together with the application of concepts, analysis, synthesis and evaluation of those facts.



The article says that since October 2005 "**UK inflation has fallen for a third month in a row, figures from the Office for National Statistics (ONS) show"**. The CPI (as seen in the graph beside) has dropped from 2.5% to 2% since October. Suspecting that the inflation rate has been rising even months before that by observing the inclining inflation rate since December 2004, I found out in previous articles that the inflation actually has been rising since mid October, November 2004 from 1% inflation.

The article mentioned important facts such as "The Consumer Prices Index (CPI) **fell to 2% in December from 2.1% in November**, in line with Bank of England targets, mainly because **transport costs fell**", "**For the second consecutive month**, the largest **downward effect** on the CPI annual rate **came from transport with large downward contributions from air travel, fuels and lubricants**", "**Fuel pressures ease**". "**It added that the price of international flights had increased less in December than a year ago, while petrol and diesel costs fell for a third month in a row**." This strongly suggests that the inflation in UK is cost-push inflation. Cost push inflation-an underlying concept in this article, is inflation arising on the supply or cost side of the economy. The theory of cost push inflation explains rising prices in terms of factors that raise per-unit production costs or the average cost of a particular level of output. Rising per-unit production costs squeeze profits and reduce the amount of output firms are willing to supply at the existing price level. As a result, the economy's supply of goods and services in the short run declines and the price level increases, causing inflation. The facts stated mentioned here linked neatly with the concept. The article says that decrease in fuel costs; transport costs and lubricant costs have the main contribution to the decrease in inflation rate. These factors helping decrease inflation may not necessarily mean that they are the ones pushing up the inflation rate but indeed rise in fuels costs, or rise in prices of raw materials in economical terms, have normally been the causes of inflation in many countries in the world. Fuel is used in transport for every single commodity, used as a material in production activities of countless goods… Rise in fuels evidently will lead to rises in per-unit production costs of most goods therefore lead to inflation. Checking again on previous articles, I found out that it is indeed fuel prices that hit UK inflation. "The increase in inflation in August was primarily due to higher prices for fuel and some food items" Howard Archer, Global Insight, 13 September 2005.

Therefore decrease in fuel costs, transport costs and lubricant costs- causes of inflation no longer exist, helping reduce the effects of the causes of inflation. Furthermore British men have taken actions to combat with inflation "…**retailers also helped to restrain inflation by cutting prices of goods…", "…manufacturers were struggling to pass on higher raw material costs to customers, deciding to cut their profits instead…**".By cutting the price of products and cutting benefits, retailers help reducing the rising prices of products but without the decrease in fuel costs, they would not sustain for long as they have no benefits; they are unable to sustain the costs and therefore they would have to raise the prices again. So the main cause in the decrease in inflation rate is the decrease fuel costs.

The article mentioned about one evident effect of inflation which is the rise in interest rate. "**News that inflation pressures are under control prompted predictions that the Bank of England could be in a position to offer another rate cut in coming months"**. This suggests that due to constantly-rising inflation in previous months, the Bank of England had to increase the interest rate making investment spending falls, as the cost of investing is higher ("the interest rate will have been 4.5% for the fifth month this January"- The Guardian Unlimited). Therefore now when the inflation rate has gone down and has a high possibility of decreasing in future months as it has fallen for 3 successive months, investors pressurized the bank to give the green light for a cut rate so that they can carry out their business transactions as before. **"But experts were split over whether rates would come down in the near term, with some suggesting a February rate cut, while others expected the Bank to wait for further economic data".**

Generally, the facts mentioned above are all linked to the concepts discussed in the article. All data and information support the concepts tightly like in the case of cost-push inflation. I also manage to do a successful cross reference with The Guardian and UK National Statistics website whereby the data and information from BBC correspond perfectly with those from the two other sources.

The article mainly is a report on the drop of the inflation rate and it concludes that the rate of inflation drops as a result of decreased fuel and transportation costs. The data and facts given in the article certainly support the conclusion as they show the decrease in fuel and transportation costs, whose increase is initially the causes of inflation. They can be clearly and easily be seen in the analysis above. For the rest of the fact on the cut in interest rate, the author is neutral and awaits further news from the Bank of England.

I think the quality of the article is good. It is short but provides from general to specific details of the issue discussed in the article. Furthermore the article leaves fields for the readers to think about and discuss on in the next articles for instance the cut in interest rate. Furthermore no bias or faulty reasoning exists in this article. As I have said previously, the author stands neutral and mostly states other experts' opinions. And I agree totally with the conclusion made by the author as it is sound and supported.

Evaluation of Credibility of Article:

Source origin: The article unfortunately doesn't show the exact name of the person who wrote the article but this article is written by the BBC economy correspondents. As far as I have known, this article will be checked and edited by BBC editor- Evan Davis- who he worked as an economist at the Institute of Fiscal Studies and who also studied at the

London Business School. He is an experienced and qualified correspondent who has numerous awards in journalism. The article therefore has already had its qualifications for authenticity and accuracy.
Currency: The article is current for research needs, especially when I need to research for statistical data because apart from stating some recent statistics on the inflation rate, it also shows the graph of inflation rate since the start of the inflation hike since 2004, therefore allowing us to observe and analyse the trend better. Moreover, the article is last updated on Tuesday, 17 January 2006, 10:28 GMT. It is the most recent article on this particularly issue.
Purpose/ motive: The author only portrays perspectives when he is discussing about whether the Bank of England should offer a rate cut in the next months. He states ideas and thoughts from the experts, the economists' points of view and the clear implication of the Bank of England point of view through what the economist said. "The UK is over the recent inflation spike and over the coming months, inflation should be dipping below 2.0%. By the MPC's own monetary policy logic, that should mean they must cut rates again," Bear Stearns economist David Brown said. "This [CPI data] very much keeps the door open for an interest rate cut in February**, although the Bank of England may still prefer to wait while it monitors the strength of consumer spending and wage settlement levels early in 2006**," said Howard Archer, chief UK economist at Global Insight.
Tone of the article: The tone is neutral. The author mainly reports, reaches quite sound conclusion and merely states others' points of view on the rate cut.
Facts/ Opinions: the source contains mainly facts and a few opinions. So it will be useful if we need statistical data and analysis as it has the most recent statistics. But it is not really thought-provoking apart from the issue of the interest rate cut which can lead to some discussions.