

THE MYSTERY OF THE MISSING MONEY

a BSP comics on inflation



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BANGKO SENTRAL NG PILIPINAS





"MILO DE LENA
HAS A PROBLEM..."

HMMM, IT
USED TO BE THAT I
COULD BUY AN EXTRA DONUT
WITH MY ALLOWANCE...

BUT NOW IT
SEEMS THAT I'M
ALWAYS SHORT!

SOMETHING
STRANGE IS
HAPPENING AND
I DON'T LIKE IT!



AND MY TUMMY
DISAPPROVES OF
IT, TOO...



I'M CONFUSED. I STILL HAVE THE SAME ALLOWANCE- THE SAME ALLOWANCE I'VE HAD WHEN I WAS IN GRADE SCHOOL, IN FACT- BUT I COULD NO LONGER BUY ALL THE THINGS I COULD BUY BEFORE. IT FEELS LIKE I ALWAYS LOSE SOME MONEY!



THERE YOU GO AGAIN, DAVID, SPEAKING IN RIDDLES. CAN YOU HELP ME FIND OUT WHAT IS REALLY HAPPENING TO MY MONEY?



SO IS THERE ANY CHANCE THAT WE CAN SOLVE THIS?



LET'S REMEMBER, MILO, THAT TODAY IS THE LAST DAY OF SUMMER VACATION. WE HAVE TO FIGURE EVERYTHING OUT BEFORE YOU ASK YOUR NANAY FOR ALLOWANCE TOMORROW MORNING.

SO WHAT DO WE DO NOW?

NOW ACCORDING TO MY DETECTIVE MANUAL, THE FIRST STEP IN CONDUCTING AN INVESTIGATION IS TO LOOK FOR CLUES. BUT SINCE WE DON'T HAVE ANY CLUE SO FAR, WE DO THE NEXT BEST THING...

EAT?

NO! DO SOME RESEARCH!

Economic and Financial Learning Center



SINCE WE ARE SOLVING A MYSTERY ABOUT MONEY, WE FOUND OUR FIRST CLUE IN COINS AND PAPER BILLS. THE WORDS "BANGKO SENTRAL NG PILIPINAS" OR THE BSP ARE PRINTED ON EVERY BILL AND ENGRAVED ON EVERY COIN. THUS, WE PROCEED TO THE BSP FOR MORE CLUES.




THERE, WE HAVE SUCCESSFULLY COMPLETED OUR RESEARCH! WE CAN NOW PROCEED TO THE NEXT STAGE OF OUR INVESTIGATION, WHICH IS...







UH-OH!



OH NO,
ALL MY NOTES HAVE
BEEN DESTROYED!
WE CAN'T INSTANTLY
REDO OUR EXTENSIVE
RESEARCH BECAUSE WE
WILL RUN OUT OF TIME!
OH WAIT, FOR SOME
REASON, THE RAIN
SPARED THESE
THREE LETTERS.



COULD "PPP"
BE A CLUE?

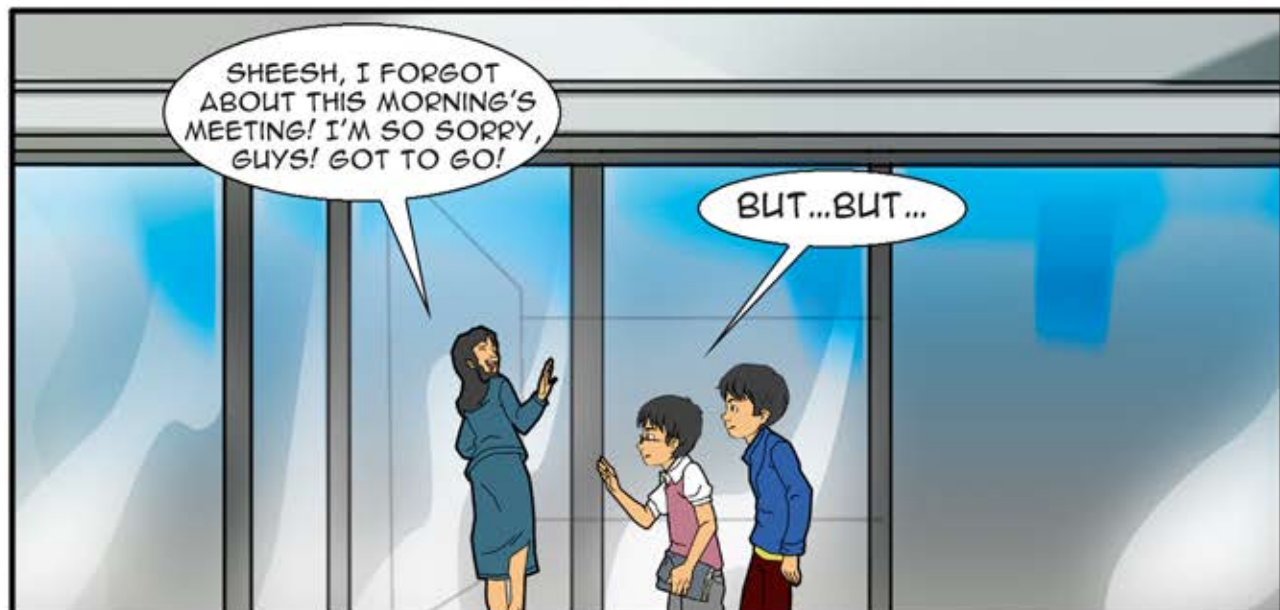


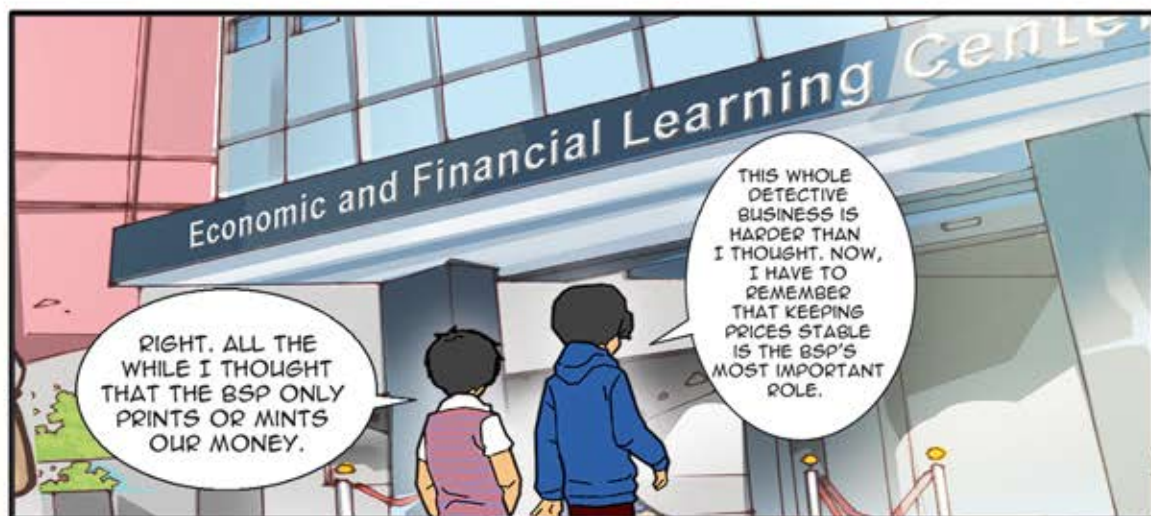
INDEED!
APPARENTLY,
I'M NOT THE ONLY
DETECTIVE AROUND
HERE! LET'S SEE...IF
"PPP" STANDS FOR
SOMETHING AND IT
IS A CLUE ABOUT
THE BSP, THEN IT
MUST SAY
SOMETHING
ABOUT WHAT
THE BSP DOES!

OOOF! GENIUS...





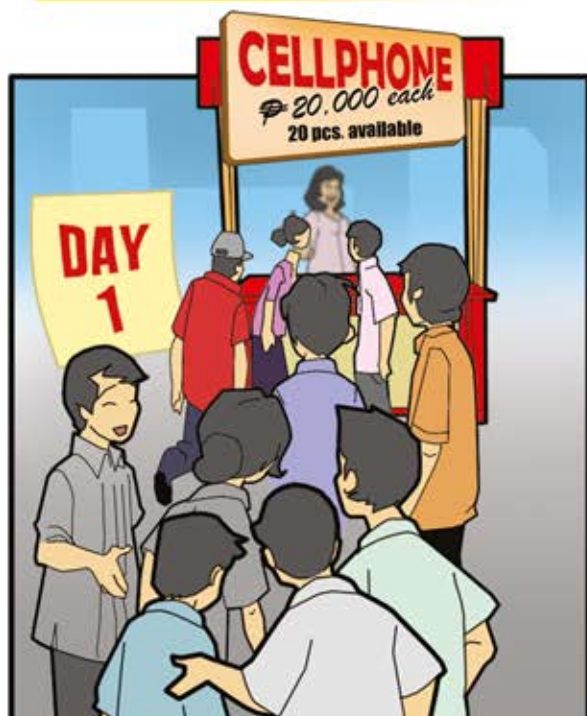




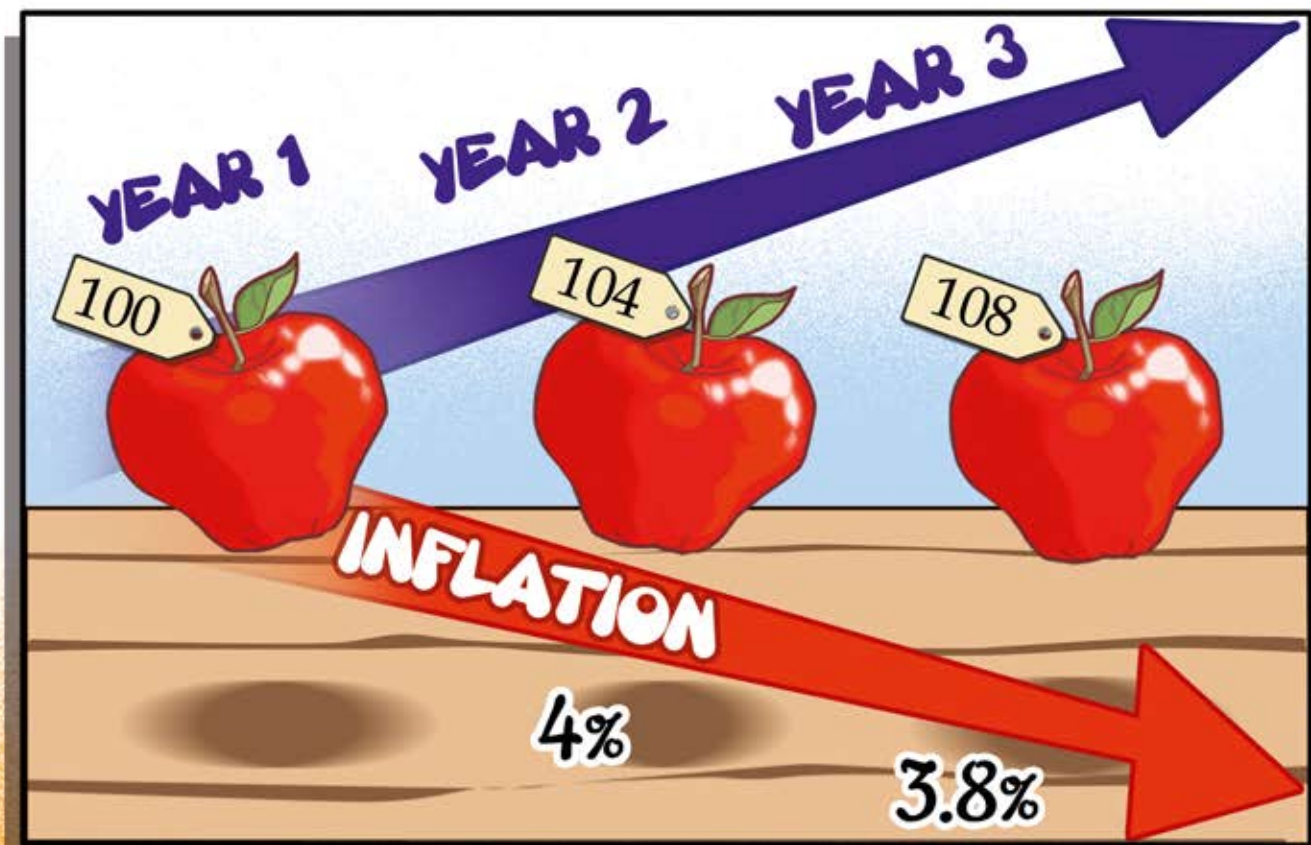
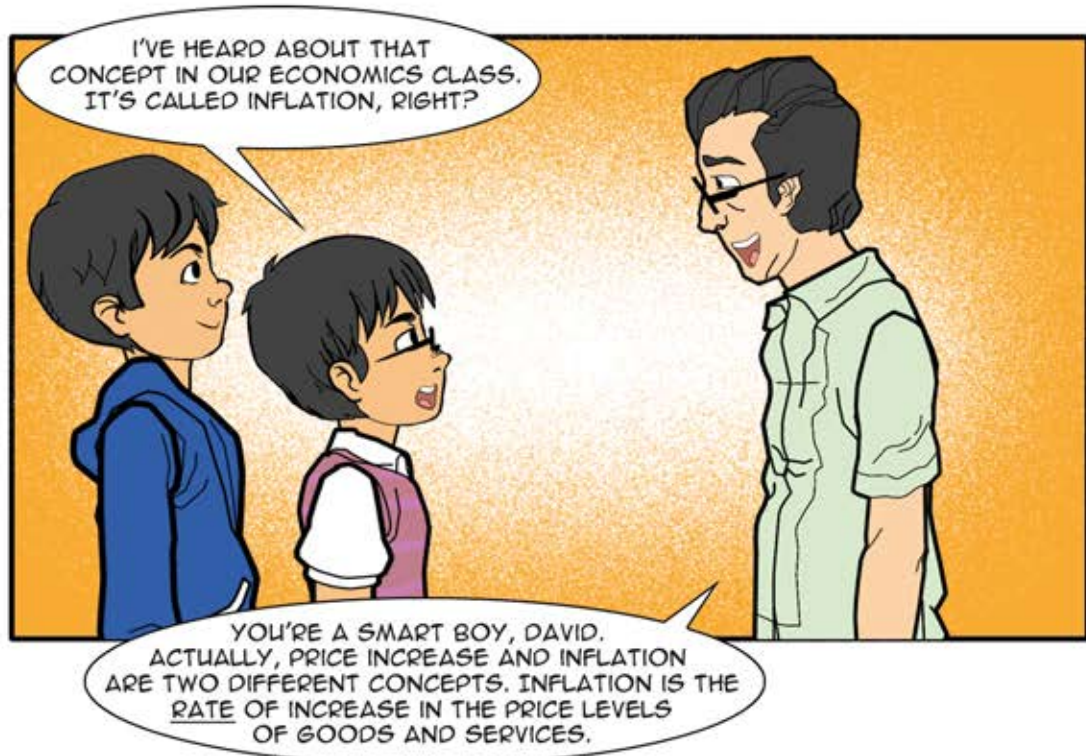




WHY DO PRICES INCREASE? IMAGINE A BIG RED APPLE. NOW THE THREE OF US HERE WANT TO EAT THAT APPLE.



"PRICES INCREASE WHEN THE SUPPLY DROPS RELATIVE TO THE DEMAND OR WHEN THE DEMAND BECOMES GREATER RELATIVE TO THE SUPPLY. PRICES DECREASE IN THE OPPOSITE CASE."



ANOTHER IMPORTANT THING TO REMEMBER: EVEN IF PRICES CONTINUE TO INCREASE OVER TIME, INFLATION CAN BE LOWER IF THE PRICE INCREASE IS SLOWER THAN THE EARLIER PERIOD.

NOW AS THE ECONOMY GROWS AND BECOMES MORE DEVELOPED, SOCIETY WILL COLLECTIVELY EXPERIENCE AN INCREASE IN WEALTH. WITH THIS COMES AN INCREASE IN OVERALL DEMAND: PEOPLE WILL NOW NEED MORE MONEY TO BUY THE GOODS AND SERVICES THE ECONOMY PRODUCES.

SO WHAT HAPPENS WHEN PEOPLE HAVE MORE MONEY TO BUY THESE GOODS AND SERVICES?

"WHEN THERE'S AN OVERSUPPLY OF MONEY, INFLATION HAPPENS BECAUSE THERE'S MORE MONEY CHASING THE SAME AMOUNT OF GOODS AND SERVICES."

HOWEVER, WE ALL DON'T WANT HIGH INFLATION BECAUSE IT ERODES THE PURCHASING POWER OF OUR INCOME. I MEAN, WHO LIKES PAYING HIGHER PRICES ANYWAY?

WE CAN BUY FEWER GOODS AND SERVICES WITH THE SAME INCOME, PARTICULARLY IF PRICES INCREASE AT A RAPID RATE. INFLATION EFFECTIVELY REDUCES THE PURCHASING CAPACITY OF OUR INCOME BECAUSE WE CAN BUY LESS WITH THE SAME TAKE-HOME PAY.

OR FEWER DONUTS WITH THE SAME AMOUNT OF MONEY...



HMMMM...
TOO MUCH MONEY IN
THE SYSTEM IS NOT TOO GOOD...SO
THE BSP CAN'T JUST PRINT TRILLIONS AND
TRILLIONS OF PESOS TO DISTRIBUTE TO
EVERYONE THEN, TO HELP US PAY
FOR OUR DEBTS AND STUFF?

THE PROBLEM
WITH PRINTING PILES AND PILES
OF MONEY IS THAT AS SOON AS THE
MONEY IS OUT THERE, PEOPLE SPEND IT-
HIKING PRICES, LEADING TO INFLATION.
AND IF A CENTRAL BANK, FOR EXAMPLE,
RAPIDLY PRINTS MONEY EVERY TIME
IT HAS TO PAY FOR ITS DEBTS
AND BILLS, HYPERINFLATION
MAY TAKE PLACE.



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World War 2



"NOW HYPERINFLATION IS A SCARY THING. HISTORY CAN SHOW HOW SCARY IT IS."



WHILE PRICES TEND TO GO UP A SMALL PERCENTAGE EVERY YEAR, WE SHOULD ALWAYS REMEMBER THAT AS LONG AS INFLATION IS LOW AND STABLE, THERE IS PRICE STABILITY.

THE BSP'S GOAL IS TO PROMOTE AND MAINTAIN PRICE STABILITY BY INFLUENCING DEMAND FOR COMMODITIES AND SERVICES SO IT WILL NOT GROW FASTER RELATIVE TO SUPPLY.

DO YOU KNOW THAT SINCE 1995, OUR AVERAGE ANNUAL INFLATION HAS BEEN KEPT AT SINGLE-DIGIT LEVELS? IN FACT, SINCE 2009, AVERAGE ANNUAL INFLATION HAS BEEN LESS THAN FIVE PERCENT. COMPARE THAT WITH MORE THAN 50 PERCENT PER MONTH INFLATION THAT CHARACTERIZES HYPERINFLATION!



I KNOW THAT THIS IS A PRETTY SIMPLE QUESTION. BUT WHY DO WE WANT PRICE STABILITY?



WE WANT PRICE STABILITY FOR THE SAME REASONS WE DON'T WANT HIGH AND VOLATILE INFLATION. IF HIGH AND VOLATILE INFLATION ERODES PURCHASING POWER AND DISTORTS ECONOMIC DECISIONS, PRICE STABILITY HAS THE OPPOSITE EFFECT. IT PRESERVES PURCHASING POWER.

PPP!!!



YOU GOT IT RIGHT THE FIRST TIME, MILO!



DECREASING THE MONEY SUPPLY COULD HELP SLOW DOWN AN "OVERHEATING" ECONOMY. OVERHEATING HERE REFERS TO TOO MUCH DEMAND FOR GOODS AND SERVICES - WITHOUT THE CORRESPONDING EXPANSION IN PRODUCTIVE CAPACITY - LEADING TO INCREASED INFLATION.

WHEN THERE IS A SHORTAGE OF MONEY IN THE SYSTEM, OR WHEN THE PUBLIC'S DEMAND FOR MONEY IS LESS THAN THE SUPPLY OF GOODS AND SERVICES, THEN THE BSP "LOOSENS UP" THE FAUCET. IF DONE CAREFULLY, INCREASING THE MONEY SUPPLY COULD HELP STIMULATE A SAGGING ECONOMY.

AS YOU CAN SEE, THE BSP IS DOING A BALANCING ACT WITH INFLATION. INFLATION - WHILE AT FIRST SOUNDS LIKE AN ALARMING CONCEPT - CAN ACTUALLY HAVE A POSITIVE EFFECT ON THE PROFITABILITY OF BUSINESSES.

ZERO INFLATION, AFTER ALL, MEANS THAT THERE ARE NO CHANGES IN THE PRICES OF GOODS. BUSINESSES WILL FOLD BECAUSE NOBODY WILL BE ENCOURAGED TO PRODUCE AND SELL GOODS AND SERVICES WITHOUT ANY PROFIT.

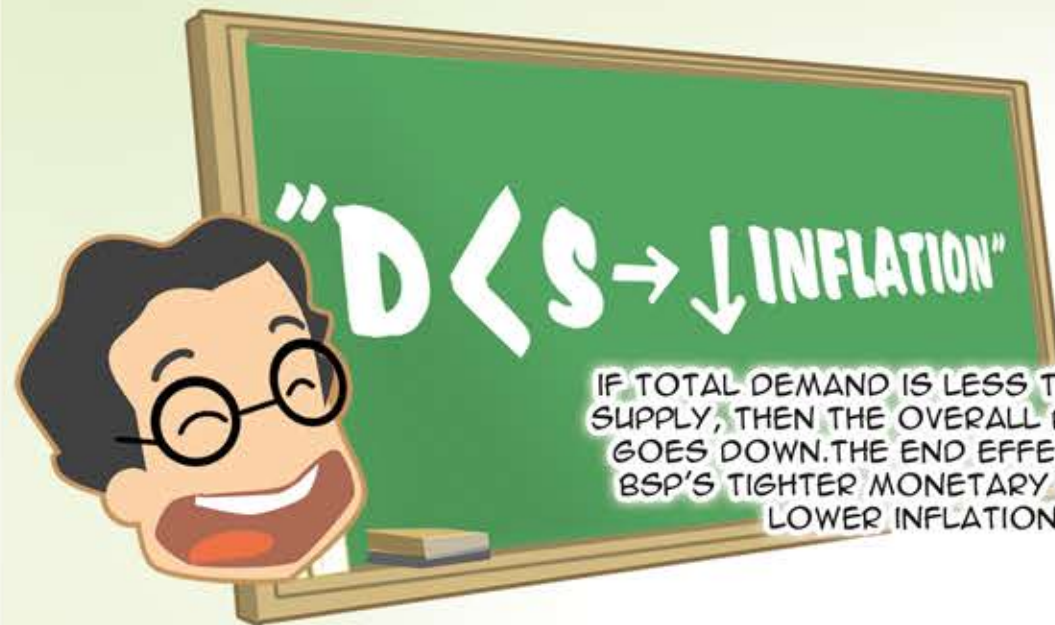
HYPERINFLATION

DEFLATION



"WE NOW KNOW THAT TOO HIGH INFLATION IS NOT A GOOD THING. NEITHER IS DEFLATION."

"IF THE BSP EXPECTS HIGHER INFLATION (AND HIGHER ECONOMIC GROWTH THAT COULD POSSIBLY LEAD TO OVERHEATING)..."



IF TOTAL DEMAND IS LESS THAN TOTAL SUPPLY, THEN THE OVERALL PRICE LEVEL GOES DOWN. THE END EFFECT OF THE BSP'S TIGHTER MONETARY POLICY IS LOWER INFLATION.

A RISE IN INTEREST RATES WOULD ALSO MAKE IT MORE EXPENSIVE FOR FIRMS TO FINANCE THEIR INVESTMENTS.



WHEN PEOPLE HAVE LESS MONEY TO BUY GOODS AND SERVICES, THEY WILL DEMAND LESS OF THEM.

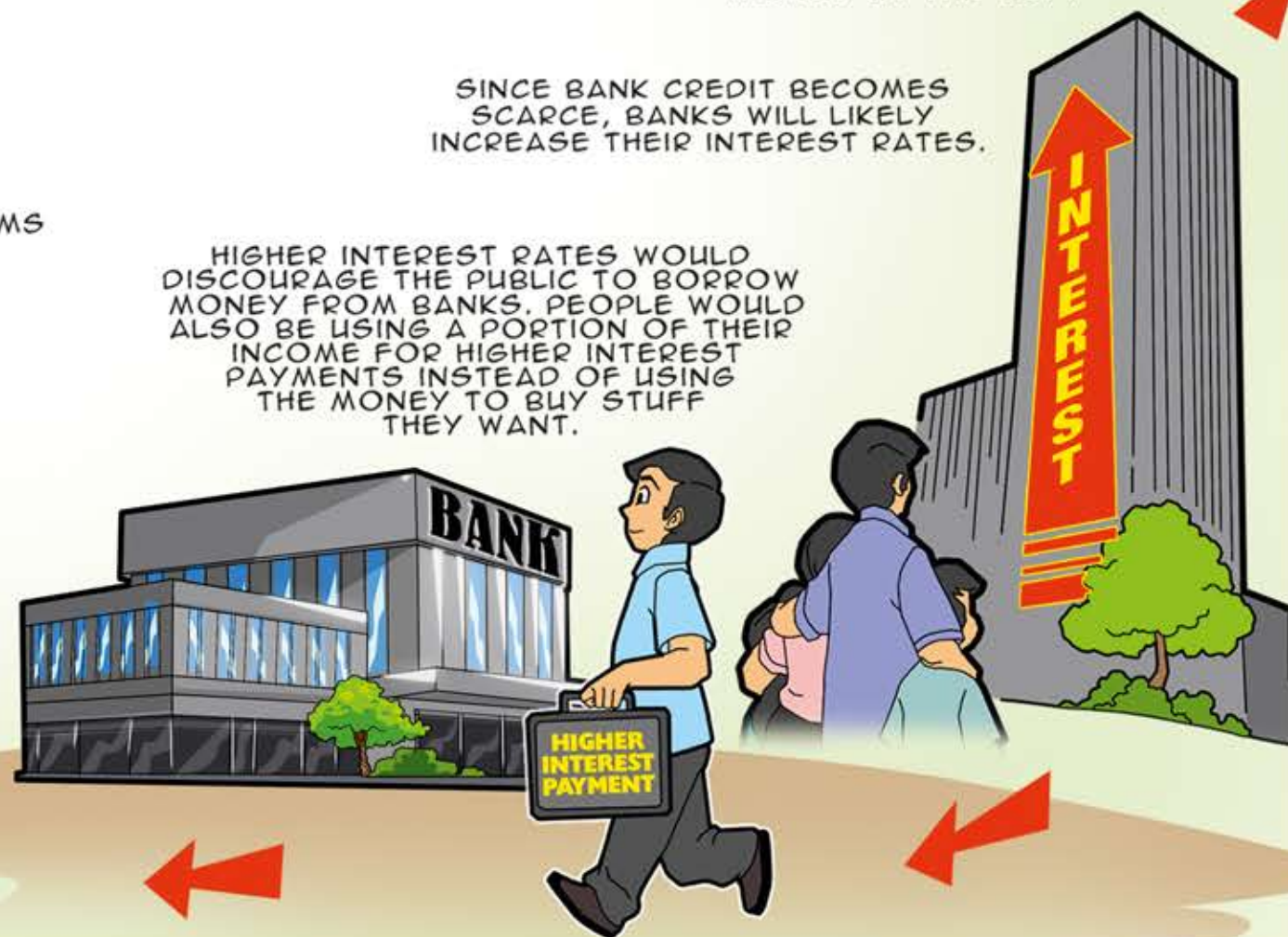


THE BSP INCREASES ITS INTEREST RATE, ALSO CALLED POLICY RATE.

THE HIGHER POLICY RATE REDUCES MONEY SUPPLY BECAUSE BANKS ARE ENCOURAGED TO PUT THEIR EXCESS MONEY AT THE BSP.

SINCE BANK CREDIT BECOMES SCARCE, BANKS WILL LIKELY INCREASE THEIR INTEREST RATES.

HIGHER INTEREST RATES WOULD DISCOURAGE THE PUBLIC TO BORROW MONEY FROM BANKS. PEOPLE WOULD ALSO BE USING A PORTION OF THEIR INCOME FOR HIGHER INTEREST PAYMENTS INSTEAD OF USING THE MONEY TO BUY STUFF THEY WANT.



"IF THE BSP EXPECTS LOWER ECONOMIC GROWTH AND A FALL IN INFLATION RATES..."



WHEN PEOPLE HAVE MORE MONEY TO BUY GOODS AND SERVICES, THEY WILL DEMAND MORE OF THEM, SPURRING THE ECONOMY IN THE PROCESS.



LOWER INTEREST RATES WOULD REDUCE PEOPLE'S INCENTIVE TO SAVE IN BANKS. LESS SAVING, MORE SPENDING = MORE MONEY CIRCULATING.

A DECREASE IN INTEREST RATES WOULD ALSO MAKE IT CHEAPER FOR FIRMS TO FINANCE THEIR INVESTMENTS.



THE BSP CUTS ITS POLICY RATE.




BANKS WILL LIKELY FOLLOW THE DECREASE IN INTEREST RATE.



LOWER INTEREST RATES WOULD ENCOURAGE THE PUBLIC TO BORROW MONEY FROM BANKS TO FINANCE THEIR BUSINESSES, BUY NEW HOUSES, OR PAY FOR THEIR PERSONAL PURCHASES.

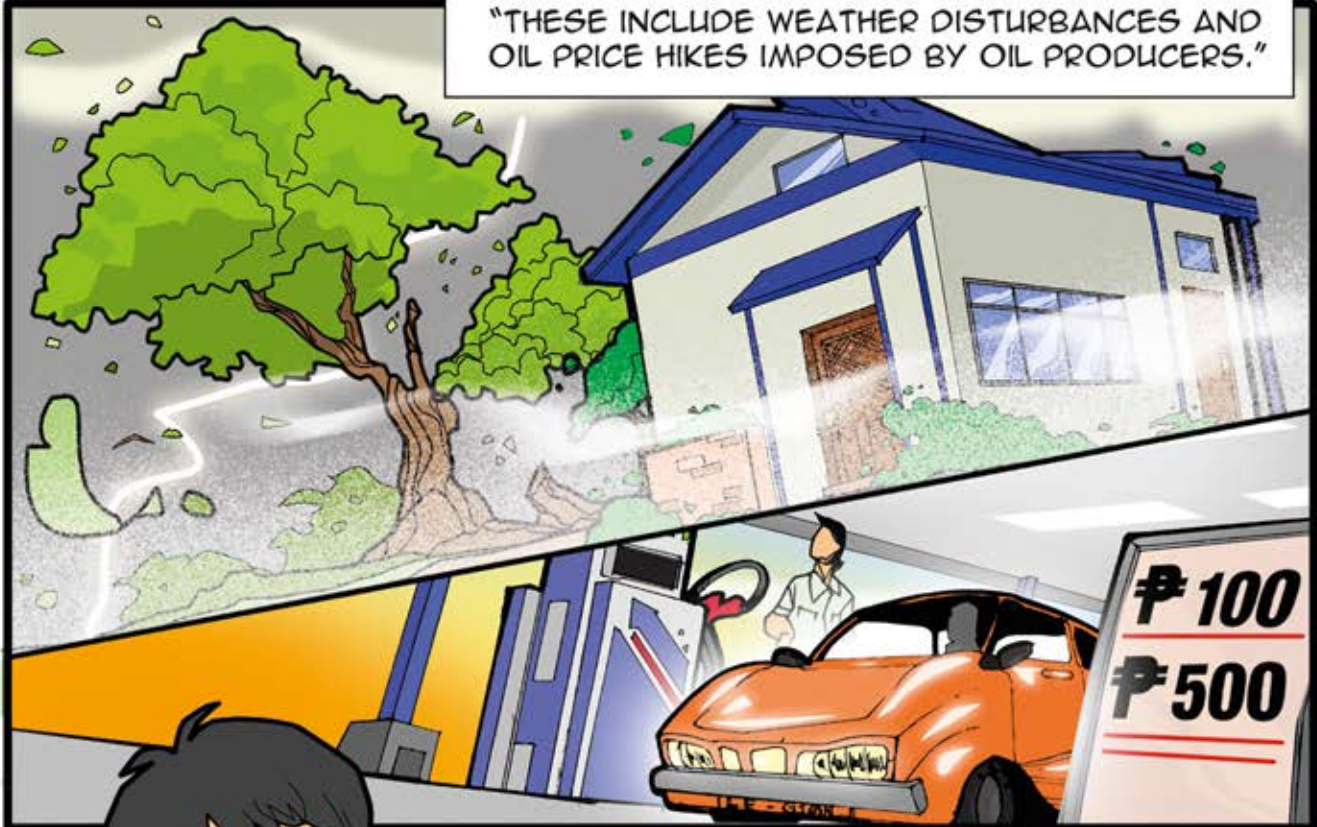





WOW.
SO THE BSP
HAS ABSOLUTE
CONTROL OVER
INFLATION THEN?



NO. THERE ARE
OTHER IMPORTANT
FACTORS AFFECTING
THE PRICES OF GOODS
AND SERVICES. THESE
ARE MOSTLY "SUPPLY
FACTORS" THAT ARE
BEYOND THE
CONTROL OF
THE BSP.



"THESE INCLUDE WEATHER DISTURBANCES AND
OIL PRICE HIKES IMPOSED BY OIL PRODUCERS."



SO THAT
IS WHY PRICES
OF RICE AND VEGETABLES
GO UP AFTER A STRONG
TYPHOON DAMAGES
RICE AND CROP FARMS
IN THE PROVINCES!

OKAY, LET ME RECOUNT WHAT WE HAVE LEARNED SO FAR: AS OUR ECONOMY GROWS MORE DEVELOPED, PEOPLE EARN MORE MONEY. AND BECAUSE THEY HAVE MORE MONEY, THEY CAN NOW AFFORD TO BUY MORE GOODS AND SERVICES BEING PRODUCED BY THE ECONOMY.



THIS IS A FAR CRY FROM THE BARTER SYSTEM OF OUR ANCESTORS, HUH, DAVID? LIFE WAS SIMPLER THEN.

NICE INSIGHT, MILO. WHEN PEOPLE HAVE MORE MONEY TO BUY THE THINGS THEY WANT, A SCENARIO MAY ARISE WHEREIN MORE MONEY WILL BE CHASING AFTER THE SAME AMOUNT OF GOODS AND SERVICES—RESULTING IN AN INCREASE IN PRICES.



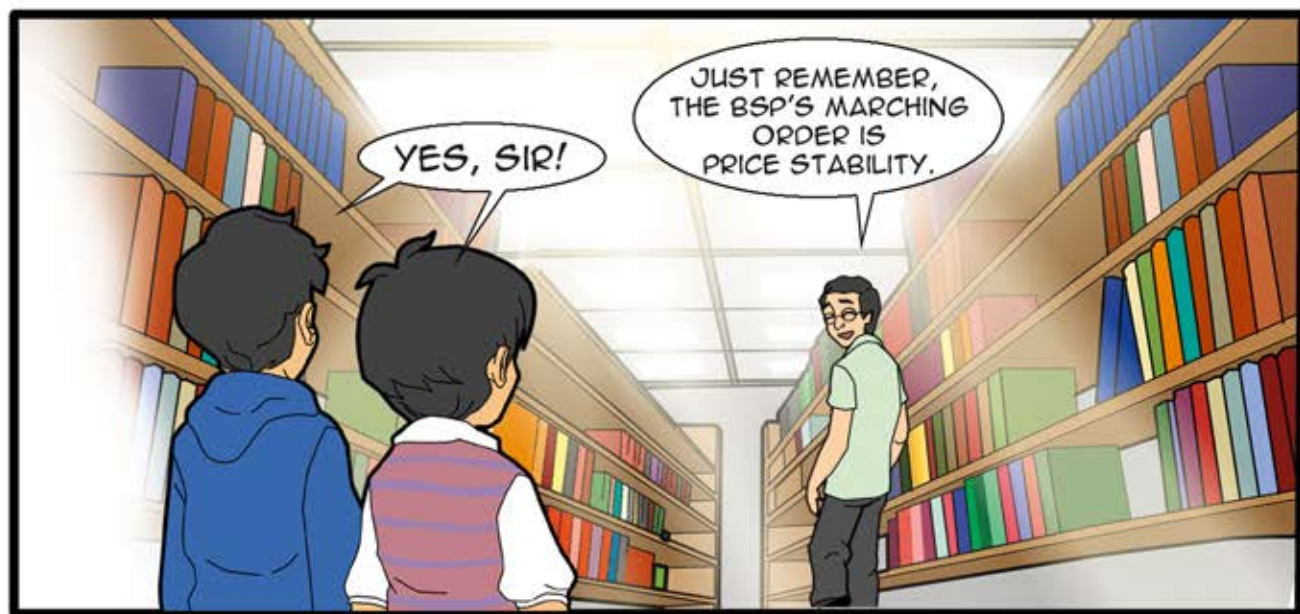
BUT WE SHOULD DISTINGUISH PRICE INCREASES FROM INFLATION. INFLATION IS THE RATE OF INCREASE IN THE PRICES OF GOODS AND SERVICES. IT DOES NOT REFER TO THE ACTUAL INCREASE IN PRICES.



BANGKO SENTRAL NG PILIPINAS



"RIGHT, MILO. THE BSP HELPS MANAGE INFLATION THROUGH THE CONDUCT OF MONETARY POLICY. THIS IS EXPECTED TO RESULT IN STABLE PRICES FOR THE FILIPINO PEOPLE."



AND I'M SO LUCKY TO HAVE SUCH A SMART BEST FRIEND. WITHOUT YOUR HELP, I WOULDN'T HAVE BEEN ABLE TO SOLVE MY MISSING MONEY MYSTERY.

REALLY?! TELL ME!

THE ANSWER TO THE MYSTERY REALLY IS SIMPLE- MY MONEY WAS NOT MISSING IN THE FIRST PLACE. I JUST COULD NOT BUY THE SAME NUMBER OF DONUTS WITH MY OLD GRADE SCHOOL ALLOWANCE. MAYBE IT'S ABOUT TIME THAT I ASK NANAY FOR ADDITIONAL "HIGH SCHOOL" ALLOWANCE.



ALL IN A DAY'S WORK, HUH? WE SOLVED A MYSTERY AND CAUGHT-ER, IDENTIFIED THE MONEY "THIEF."

NOW IT'S UP TO THE BSP TO KEEP THE "THIEF" UNDER CONTROL.



THE END