Effects of inflation on international competitiveness

Inflation erodes international competitiveness. Governments are trying to reduce inflation in many ways as it leads to distortions and problems in an economy. Inflation should be maintained at lowest level for the people in a country to self- assurance in the value of the money they use. Inflation can decrease in purchasing power. During an inflationary period, low – income people can reduce their purchasing power of money. This is because the dollar is worth less and they are not able to purchase goods and services. Finally, the demand drops. So as a result, suppliers such as grocer suppliers and farmers are going to limit their production. Besides, companies will have to face with falling demand of their products. The decline in production guides to the need for few inexpert workers and low- income people who are naturally not having highly developed education. So they are the one who must face first with the effects of inflation. Fixed income people's purchasing power will be low if inflation is high while people with variable incomes (who are moderately richer than those people will not get too much effects with inflation. Inflation can also create a reduction in the real value of savings[2]of real interest rates are negative. It means the interest rate does not recompose for the increase in the general level of price. The real value of borrower's debt moderated. Therefore, inflation errands borrowers at the expense of savers. Moreover, higher nominal interest rates could be happened due to the inflation and then business planning could be troubled. Companies profits can be deliberated When inflation is unpredictable from year to year, individuals and business couldn't forecast what the rate of price inflation will be happened in the near future. When people are able to make precise calculation on inflation, they can look forward to protect themselves such as companies can fix their prices and also lenders can regulate interest rates. Because of these, I think government wants to tackle inflation. These are the reasons for governments why the government might want to tackle inflation.

Cost push inflation can be occurred due to the oil prices and other raw materials. Policies to reduce cost push inflation are the same as in demand pull inflation. Fiscal policy which means higher taxes and lower spending can increase interest rates. Later, cost of borrowing and reduce consumer spending and investment.[3]Supply side policies could help for lasting of cost push inflation by increasing productivity and move the aggregate supply (AS) curve to the right. Nevertheless, such kind of policies would take a long time to have an effect on cost push inflation.

Better education and training

Lower taxes

Increasing flexibility of labor markets

All those above policies would take time to have an outcome. The government could face with difficulties to decrease inflation and unemployment at the same time. Monetary policy can diminish inflation but, conditions of unemployment can become worse if the interest rates become higher.

Demand -pull inflation

When there is surplus demand in the country, producers or manufactures are able to lift their prices and attain bigger profit margins as demand is running forward of supply. If direct taxes are lowered, consumers will have more disposable returns and it can cause rising in demand.

To reduce aggregate demand, the government has to spend a small amount of money itself otherwise they have to use its tax-setting powers

(source: bank of bizle http://www. bized. co. uk/virtual/bank/economics/mpol/inflation/cures/theories3. html) in order to influence other people's spending less. Effects on aggregate demand which includes all the expenses in the economy will be caused if interest rates are increased. As for the example, people who have used money in borrowing money will find out that their loan expenses have raised. Consequently, they have a little amount to spend on other equipments therefore; the level of consumption is reduced.[4]According to the Monetarist view, the interest rate should be raised so people can save more and their spending would be reduced later. This could lead to lower in demand. Governments, borrowers, have to give interest on the National Debt so that interest rates will be raised. This might mean a transaction with other spending. So, we are going to cut spending on some other public service. So, higher interest rates could harmfully have an effect on exports and can direct to a supplementary fall in aggregate demand.

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