

Research

Business



Teacher: Business Research: Inflation in Brazil Inflation in Brazil is a major concern; the price of commodities has continuously increased, thus reducing the purchasing power for the majority of citizens. The poor tactics implemented by the government have aided the rise of inflation rates. For instance, increased amount of money in the Brazilian economy has served as a motivator for increase in prices of commodities. There is a growing increase in production and labor costs, and even though the government is constantly increasing the money in the country, the distribution of income is uneven, adding to the reduction of purchasing power for the citizens. (Baer, 34)

Implementing a fixed exchange rate in Brazil is not a plausible concept because the value of the currency is constantly decreasing with the constant flooding of the currency in the market. The availability of the currency has prompted the currency to continuously lose its value, hence the increase in inflation (Taylor, 76). The same strategy (of using a fixed system) was applied in Zimbabwe, but the country succumbed to the harsh nature of inflation, this led to the country disregarding the local currency and using US Dollars instead.

The URV or Unidade Real de Valor is a currency that is used in Brazil that is not subjected to the effects of inflation in Brazil. The aim was to absorb the effects of inflation in the country. The Brazil government implemented a fixed exchange rate for the URV to the Dollar (1 URV = 1 USD). However, the main problem was the fact that obtaining the URV was expensive as compared to using cruzeiros reais, which is widely used in Brazil (1 URV = CR\$ 2, 750). The demand for the URV has only served to increase the exchange rate, and it is playing its part in the inflation that has plagued <https://assignbuster.com/research-essay-samples-17/>

Brazil. (Blanchard, 54)

Implementing a free-floating exchange rate will allow the currency to trade based on the conditions and regulations that are implemented in the market.

The advantage is that the exchange rate will be stabilized by these market forces hence serve to regulate the exchange in the best interest of the market. However, the major disadvantage is that, excess freedom in the market, may encourage cartels to manipulate the exchange rate to their advantage, which may inconvenience other players in the market.

Implementing both fixed and free-floating exchange rate mechanisms would be the ideal setting for the market. There should be freedom in the market that will allow the market to determine the suitable exchange rate for the operations of the market (Lagassa, 98). The government should implement fixed factors to avoid cartels and other groups from manipulating the market to their own greedy benefit.

To reduce further crisis, there should be a limit on the amount of money in circulation in the economy. The main problems involve the uneven distribution of money in the economy, and a lot of money in the economy implies that goods and services can be bought at extravagant prices.

Reducing these factors would serve as a solution to the high inflation rate. Therefore, my recommendation encompass limiting the amount of money in the economy and implementing fixed free floating exchange rate mechanisms. This will serve to regulate activities in the Brazilian economy and provide an essential level of control in the country that can be used to avoid further inflation. It is advisable for the government to reduce money circulation as a strategy of lowering prices of commodities, and forcing companies to sell products at reasonable prices. Establishing control on the

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exchange rate will reduce volatility in fluctuations of the exchange and create stability that can attract foreign investment.

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