

# Solutions to inflation



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## **Introduction**

In the recent past the world economical environment has been at a stand still this is as a result of unstable economical growth in the world today. This is as a result of the poor flow of resources in the worlds, thus resulting to inequality amongst the people in the universe resulting to negative aspects such as inflation of the world currencies. Increased prices of commodities, decline in consumer spending and scarce distribution of resources. These effects results to the change of the standards of the people lives to worsen as they are facing financial crisis (Mishkin, pg 38). And this trend of economic crisis will stay for a long time as the world economy will be face instability as a result the political and financial crisis that is currently being experienced in the world today.

In this paper I am going to highlight on Inflation, as one of common economic crisis that is affecting the world today. Inflation is an economic crisis that is associated with the general increase in the prices of the common services and goods in a given period of time. Therefore inflation is explained as the situation where the prices of a commodity increases and the currency unit buy a fewer good or services. Thus, forcing the users of these goods and services to pay more for less resulting to the purchasing of a small amount of good at a higher price (Mishkin, pg 138).

## **What problems are associated with inflation?**

Inflation is associated with a lot of problems that are major affecting the consumers, on problem that is associated with the loss of the value of the money. This negative effect will make the value of the money of the affected

country to be ranked low as compared to the other currencies, thus making the exchange of the currency with other countries currencies to give a lot of money for the same value (Shah, par 5).

The other effect of inflation is the inability to detect the future of the inflation, this is because the resources that are being used by the investors are scarce and this will make that the investors who are planning to invest in the country to opt to invest in other countries in attempts aimed at salvaging there business from collapsing.

Inflation also leads to the reduction of the services and goods; this shortage of these vital commodities is because the producers of these commodities lack the raw materials for producing these products aren't in supply as most of the suppliers say that the cost of production is high. Thus, makes the customers lack the scarce commodities that are not in supply.

## **Causes of Inflation**

There are different causes of inflation according to the research that has been conducted; this has resulted to mixed thoughts from the economic experts who argue that inflation is caused as a result of either the quality or quantity theories (Macroeconomics, par 1). Quality theory is where the sellers of the commodities hide the commodities and only removes them when the demand is high, while Quantity rests on the currency supply in the country in either the circulation or its flow.

One main cause of inflation is the government activities; this is when the government prints excess money in attempts aimed at dealing with a given crisis. The increase in the supply of the excess money in the country makes

the value of money drop, and from this drop the prices of commodities will increase thus resulting to inflation (Mishkin, pg 68).

Inflation is also caused as a result of national debts and international lending, this where the developing countries which borrow money from the developed nations have to deal with the heavy interests that is imposed on them by the developed countries. When they are paying the debts thus this problem is imposed on the citizens of the country thus will have to purchase the basic products at a relative high price.

Another cause of inflation is the rise of the production cost, this increase of the production cost will result to the increase of the prices of the final products (Macroeconomics, par 2). This includes the increase in the price of the raw material this will automatically result to the cost of production. Thus, the final product being expensive, this will also cut across other aspects which include increase in the wages of workers.

Inflation can also be as a result of an increase of the federal taxes that is passed on to the customer's products, which include products like Oil, Cigarettes, Food, Electricity amongst others. According to (Macroeconomics, par 2) the increase in these vital commodities will automatically result to the final consumers forced to carry the burden and once the prices of these commodities goes up they will reduce even after the taxes raised are reduced.

Wars are also seen as another cause of inflation, this is because the political instability of these countries might spread to the extent of affecting the other countries that are around the country that is involved in the war. An

example is when the USA attacked Iraq the political instability affected the entire world this is because the supply of oil was reduced drastically, the same is now being reassessed in Africa today with the ongoing attacks on Libya by the US lead troops.

## **Solutions to Inflation**

Inflation can be solved in a variety of ways one solution of inflation is the involvement of each section of the government when making all the important decision such as printing of the country currency. The president will receive information from the economic experts on the importance of printing money thus making him more aware of the effects.

The other way of reducing inflation is to reduce wars that are commonly being experienced in the world today (Shah, par 4). These reduced cases of political instability will result to easy flow of raw materials thus reducing inflation.

Another way of reducing the cases of inflation in the developing countries, is when the developing countries stop or reduce the cases of international debts and start to depend on there own resources. This will subsequently make the countries to kept the interests for themselves and thus use it to develop there country and economy.

### **Policies that will reduce the re-occurrence of inflation**

There are several policies that are put in place in order to ensure that the cases of inflation are reduced one policy is the monetary policy. Such policy will check on the levels of inflation in the country this body will check on the

interest rates of the country and inform the government of these changes (Inflation, par 1).

Another policy will be the Fiscal policy this is where the government checks closely on its expenditure and its taxes this will ensure the country knows its demands; in this stage the government will increase its taxes and reduce its expenditure.

The other policy to be implemented by the government will be the exchange rate policy, this is when the country increases the value of its currency high this making the currency more valuable (Inflation, par 4). The last policy would be the supply side policy this will increase the productivity and comprehensiveness of the products; this will ensure that all the state organizations are privatized in order to increase productivity thus reducing inflation cases.

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