

# Inventory and inflation

Finance



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The Relationship between Inventory Management and Inflation Inflation refers to the increase in the prices of services and goods. It is more intricate phenomena related to the supply of money and currency values. An increase in the supply of money leads to a reduction in the value that is associated with that currency (Alfredo, 2000, p. 336). This hence decreases the purchasing power of money hence resulting into an increase of the prices of services and goods. This means additional money is required in order purchase the same amount of services and goods as compared to the previous period. On the other hand, inventory management is the procedure of competently overseeing the steady flow of units into and out of the existing stock. This process normally involves controlling the units coming in with an aim of preventing the inventory from excessively rising or declining to levels that are too low to jeopardize the operation of the business. Proficient inventory management seeks to control the costs of goods from the perception of the tax burden and the total cost of goods. Inventory management and inflation are concepts that are closely related in the running of the business. The increase of prices of goods and services determines the units to be purchased since this is influenced by the money at hand. If the capital of the business remains constant, the goods being purchased reduces due to increase in their prices. One has to monitor the trend of the inventory since this determines the time and process of making an order. First moving goods are purchased regularly as compared to those that take a longer period of time. Inflation does not only affect the business owners but also the consumers of goods. For instance, when prices go up, the purchasing power of the consumer is reduced. This forces the consumer to do away with some commodities since there those which are given more

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priority than others. The business owner has to make a decision on which goods should be stocked basing on the fact that his purchasing power has also reduced due to inflation.

Reference:

Alfredo, S. (2000). Inflation theory: a critical literature review and a new research agenda. Bradford: Emerald Group Publishing Limited.