Good example of optimal inflation for guinea research paper

Economics, Macroeconomics

Chapter-1

Introduction

When it is defined about economics, then it will be definite about the inflation and economic growth (Banerjee and Duflo, 2011). Economies are always in comparison with other economies in terms of enhancing their economic growth and minimizing the level of unemployment rate accordingly. Earning the money and consuming it in a perfect and best possible manner is a basic definition of economics, and economics are utilizing it in a better way. Apart from earning and consuming the money at a better place, economic development and economic management are some of the important aspects that associated with the long run efficacy of an entity.

The laws and regulations of economics have been distributed in two different parts known as Microeconomics and macroeconomics. The variables that come over the place to earn the economics of the country as a whole are known as macroeconomics. On the other hand, Microeconomics is a branch of economics specifically associated with the economics of the individuals particularly. Macro variables are comparatively more effective as far as the economic growth of an organization is concerned as compared to micro variables, and they have the tendency to analyze the things in an effective and organized manner (Banerjee and Duflo, 2008).

It has been observed from past researches that the variables of macroeconomics are interlinked with each other, and each of the variables has a direct linkage with some of the other macroeconomic variable of a country. Inflation, which is one of the most significant elements come in the field of macroeconomics has a direct linkage with the economic position and the growth of an economy in particular. In this assignment it is required to analyze the same relationship for Guinea. The assignment is a term paper in which different statistical tools and measures would be taken into consideration accordingly.

Background

In the field of economics, the term inflation is used as a sustained increase in the general price level of goods and services in an economy over a specific period of time. Inflation has a direct linkage with the financial position of an economy, and it has a strong linkage with the purchasing power parity of the individuals (Banerjee, Benabou and Mookherjee, 2006). Inflation affects an economy from different angles like positive and negative, however it increases the level of investment and management particularly. There are numerous economies of the world which have encountered either effects on their economic prosperity and effectiveness due to the level of inflation, and among those countries the name of United States (US) is one of them. Guinea is one of those economies of the world that affected a lot due to the prevailing inflation rate of the country. It is also required to analyze the empirical studies of the WAMZ Countries.

Aims and ObjectivesThe aims and objectives of this research are as follows

Contribution of the Paper

Every paper will deserve a positive go because every paper has a lesson for its readers. The contribution of this paper will be extremely effective and essential for the economies, and especially for the Guinean economy, which was under severe pressure of economic crisis and escalating inflation (Cato, 2011). The research paper can be used in the policy making to cope up with the problems of inflation in a given economy. Special emphasize would have been done on the basis of Guinea and WAMZ Countries. In future, this research will be used by the researchers for analyzing the core relationship among the economic growth and inflation.

Chapter-2

2. 1. Literature Review

Guinea is a country located in West Africa, which formally known as French Guinea. Guinea is a republic country in which the Government elected through the elected verdict of the people. In terms of religion, Guinea is known as an Islamic country with high Muslim proportion of 85% of the population. There are around twenty four ethnic groups can be found in the Guinean region, which the official language of the country is French. It is an economically weak country in terms of economic consequences, and it largely depends upon the agriculture and mineral production. Guinea is known as World’s second largest producer of bauxite, and it is the richest deposits of diamonds and gold (Cato, 2013). The major problem associated with the economy of the country is that the utilization of diamonds and gold are not possible in particular. In the year 2011, the country reported Gross Domestic Product (GDP) of US$ 11. 464 billion with per capita income of US$ 1, 082. The Health Index of the country is very low, which is showing that the cost of living in the country is extremely high, with very low capability of health and other aspects particularly (Cato, 2011).

Guinea has abundant with natural resources including 25% of the world’s bauxite reserves, with lots of diamonds, metals and gold mines. The country also has a great potential as far as hydroelectric power is concerned. Tobacco, Beverages and Soft Drinks are some of the major companies which are operating in the region for the effectiveness, and they are doing a fantastic job in the region. Agriculture is the most important source of earning the money in the region, and the sector has a large amount of employment level as well. In terms of quantity, the country employs around 80% of the population of the country in Agriculture. Guinea was also known as an effective country in terms of growing banana, coffee, pineapples and palm oil. However, these products are not likely to have by the country in the current scenarios (Cato and Polyp., 2006).

2. 2. Inflation Growth-Relationship

Over time, the growth in the GDP causes due to the inflation, and inflation leads to get hyperinflation. Once this process is in a perfect place, it will become a quick reinforcing feedback loop. Inflation has a direct linkage with the growth of an economy, until and unless the rates of inflation are not devastating the personal life of the individuals. The main reason behind this relationship is very simple and it usually analyzes the concept of money supply (Gabor, 1990). With the increment in the price, people are becoming fonder of consuming high and high in the market, which will increase the level of growth substantially. There are certain evidences wherein the economists and policy makers of a certain country induce the people to invest and consume more and more. One of the examples related to the

Great Depression of 1930, after the World War II, in which the policy makers requires their people to consume more and more for the economic consequences of the country, or to increase the money supply of the economy.

2. 3. Review of Empirical Literature on Inflation-growth relationship

Major countries of the world like the United States (US), Germany and the United Kingdom (UK) have a great relationship between the inflation and their growth rate. During the current economic crisis, wherein all of these countries received some of the major jolts the level of inflation is the one which has a direct linkage with their growth rate. At the time of current global financial crisis (GFC), the rate of inflation of the United States (US) had exceeded from an upper level and went on a level of double digit, which was not effective for the economic function of the country (Jones, 2007). This was the same time on which the consumers left to invest in the stocks of the company, and were not in a mood of consuming highly in the economy. The action was not effective for the entire state of the United States (US); the FED chairman had induced the consumers to increase the level of money supply in the country accordingly. Keynes theory can be applied on the same scenario accordingly, which stated that those economies which are higher in consumption would be more effective and worthwhile as compared to those economies wherein the stance of consuming the money is very low. Keynes identified a stage wherein he said that Wars are good for an economy, because in this situation people are becoming generous and spend more than their usual time period. The economy of the United States (US), United Kingdom and other European economies decreased their exchange rate and inflation rate to increase the consumption level of the economy in a perfect position.

2. 4. Empirical studies from WAMZ countries

WAMZ accounts for Western African Monetary Zone, and it has number of economies specifically found in this region. Empirical analysis is revealing that the economic consequences and situations all of the economies located under WAMZ are not effective and economically weak due to numerous issues (Jones, 2007). Weak exchange rate and high inflation rates are some of the major problems that associated specifically with these economies, and the government of these economies are not in the favor of enhancing the productivity of the economy. If it remains like the same in the future, then It will be transformed into a severe and intensifying position for the economy.

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Inflation Growth Relationship in Guinea

As specified earlier, the economic consequences of Guinean region are not effective, as the Gross Domestic Product (GDP) growth rate as well employment rate of the country is very low. Almost all the African region is living under the line of poverty because of different reasons, and the same aspect is applied over Guinean economy as well. The inflation rate of the country is in double figures from number of years. It was nearly 11% in the year 2010 and reached on peak of 22% in the financial year 2011. However, the inflation rate in the country has now decreased heavily in the year 2014, but it still managed to a level of 10%. It is evidence that the people of the country are unable to buy expensive things because the per capita income of the country is very low and ineffective. The buying power of the individuals found in the region of Guinea is decreasing year on year merely because the high rate of inflation and improper allocation in the country. This entire problem needed to be overcome accordingly for the sake of the economy in particular; otherwise the option would go in severe problem for the company in the near future.

Chapter-4

Methodology

Methodology is known as a systematic and theoretical analysis that specifically associated with the methods applied to a specific study. Research methodology usually comprises on the analysis of the body and the principles associated with the branch of knowledge. A methodology usually looks forward the strategies and framework to complete a research in a perfect and organized manner. There can be two important parts of research known as Qualitative Research and Quantitative Research that can be used by the researchers to investigate a particular topic (Panneerselvam, 2004). Qualitative research is a method of research in which the data would be collected from the sources found on the internet or with the interviews. It is usually done on the basis of case studies or on the level of effectiveness from which effective result could have been used and controlled accordingly at the same time. On the other hand quantitative research is a type of research in which the data would be collected through the primary data collection technique like Questionnaire (Panneerselvam, 2004). Relevant statistical tests like Chi-Square and regression would be applied on the data collected through the questionnaire (Panneerselvam and Senthilkumar, 2010). The research methodology which has been used in this analysis is QUALITATIVE or SECONDARY Research, in which all the data has been selected through the official websites of the Central Bank of Guinea to collect the information related to the inflation level and GDP growth of the country. Number of statistical test will be used for the same analysis. Ten years of data has been taken into account for the

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Analysis & Findings

The table and chart that represents the GDP Growth Rate and Inflation of Guinea is as follows for further analysis (Tradingeconomics. com, 2014)

The analysis has shown that the rate of inflation has a negative relationship with the GDP growth rate. It can be found from this analysis that inflation is increasing heavily in the Guinean region, but it is not reflected over the GDP growth of the country. The rate of inflation in the financial year (FY) 2007 was on peak, while the GDP growth in the same year was 2. 5% in particular (Tradingeconomics. com, 2014). The inflation rate of the country was nearly 0% in the year 2009, but the GDP growth rate in the same year was 4. 9% which is the highest among the ten years of operations particularly. The average GDP Growth of Guinea is 2. 58%, while the average inflation rate of the country is 17. 38% in ten years of the time period. This particular aspect is showing that the level of inflation is extremely high in the region, and it has no relationship with the GDP growth rate.

The correlations among the variables are negative, and showing a force of correlation is -0. 104, showing that the levels of relationship among these variables are negative and they will move against with each other. This particular aspect is clearly showing that there is no relationship found between both of these variables, as far as talking about the economic consequences of the Guinean economy is concerned.

The relationship among both of these variables can be found from the below mentioned regression table

The thing which is effective to analyze and compute in this particular table generated through the SPSS program is the R-Square, which analyze the level of intensity among two different variables accordingly. The R-Square is 0. 011 which is showing a weak intensity among both the variables, showing that it will not go in the same direction with each other. Therefore it can be said that inflation has no effect on the GDP growth particularly for the economy of Guinea, as found in this particular analysis. It is an important measure of an economy; however it is not giving a good respect for the Guinean economy in particular.

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Conclusion & Recommendation

Economic variables are very important to analyze the economic growth of an economy in an effective manner. The variables of economics have been divided into two different forms known as macroeconomics and microeconomics, and both of the aspects are essential for an economy particularly. Economies however emphasize heavily on the macroeconomic variables for their economic growth. One of the major aspects of macroeconomic variable is Inflation rate. In this assignment, it is required to analyze the core relationship between the inflation and the GDP Growth rate of Guinea. The entire analysis revealed that there is a negative relationship found between the level of inflation and GDP Growth rate of the chosen country. Statistical measures and results have been used accordingly to mop up on the same result with effectiveness. There are certain recommendations that can be helpful for the region to enhance the level of prosperity in their region

Recommendations

- Central bank of the country should intervene in between the consumers and the banks, and should pledge the money of the consumers in order to increase their confidence level on the economy
- It is advised to the country to enhance the level of money supply accordingly to decrease the level of inflation accordingly
- The optimal inflation rate for Guinea comes when the inflation rate will come in the single digit, and government should play their role to do it accordingly

Chapter-7

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