

Inflation in vietnam



Vietnam's inflation last month, 27%, reached highest position in asia.

Prices of everything go all the way up, especially necessities like gasoline, food and clothes (e. g: food prices increased 74%). Overdose foreign investment and technologically backward industry seemed to be the causes. Besides, overtly rate has reduced to 15% from 58% since 1993, but now it is likely to raise again. Some workers who led vietnam's rise from poverty are suffering from expensive city life, planning to return to their rural home.

The people become disappointed as they see no efficient solution from the government. However, most economists think this period is just a temporary bump in growth. Detailed information from the article: -“ the government raised the price of gasoline by 31 percent to an all-time high of 19, 000 dong (\$1. 19) per liter (or roughly \$4. 50 a gallon). Diesel and kerosene prices rose still higher.

” - “ people are cutting back on food, limiting travel, looking for second jobs, delaying major purchases and waiting for the cost of a wedding to go down before marrying. ” -“ rumors of price increases have caused panic buying of fuel and rice. -“ vietnam is suffering from the worldwide economic downturn and from high inflation that has spread through southeast asia. ” -“ as dong, drops in value, people say they are moving their money into dollar bank accounts” Analysis -General type of inflation: galloping Normally, an inflation rate of 1-2% is acceptable for an economy (it usually goes with growth rate of 3-5%).

Galloping inflation is 10-20% rate and begins to get out of control. In this case, vietnamese inflation rate has increased gradually up to 27% at the

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moment and does not seem to stop yet. It can possibly turn into hyperinflation if the government cannot deal with the problem. However, since vietnam had grown in 8% for the last decade, the situation is not that pessimistic.

-Cause oCost-push: cost-push inflation happens when there is a decrease in aggregate supply. “ vietnam is suffering from the world wide economic downturn and from high inflation that has spread through southeast asia. ” Price of fuel, an important resource has gone up worldwide, driving the cost of raw material and transportation up as well. The higher the cost of the roduction, the lower the number of production, which leads to a decrease in aggregate supply. oDemand-pull: demand-pull inflation happens when there is an increase in aggregate demand (total demand increases as consumption, investment, government spending or net export increase) “ rumors of price increases have caused panic buying of fuel and rice. ” By the way, since vn has been a member of wto, foreign investment boosted.

However, vietnam has too much investment in capital stock, but too little suitable high technology factories and labors. Aggregate demand increases but aggregate supply cannot increase enough to keep up. As a result, price level goes up. -Consequence: oUnemployment: according to the article, workers are striking and leaving their working places. Some of them go back to their rural homeland. When inflation is high, unemployment is low and vice versa.

This inverse relation is modeled by Phillips curve. o Low growth: growth or real GDP rate is based on consumption, investment, government spending

and net export. Consumption accounts for the greatest amount, 66%. people are cutting back on food, limiting travel, looking for second jobs, delaying major purchases and waiting for the cost of a wedding to go down before marrying”, which means a lot less consumption and lower GDP. oDrop in dong value: more investment means more banking loans and more money supply ? inflation ? drop in dong value. -Solution: combination of contractionary fiscal and monetary policy oFiscal policy: adjustment in government spending or taxes to influence the economy.

More spending means more growth. oMonetary policy: government or money authority controls money supply to influence the economy. More money supply means more growth. In order to cure the inflation, ad line needs to move left and as line needs to move right, both indicate lower growth. Therefore, the government can either decrease government spending, only spend selectively , raise taxes or cut down on money supply or do both.

Works cited Mydans, Seth.

“ Inflation Delivers A Blow To Vietnam’s Spirit. ”. New York Times August 24, 2008 ; http://www.nytimes.com/2008/08/24/world/asia/24viet.html?_r=1&_3=vietnam%20inflation&cse=slogin;