Free literature review on the effect of hyperinflation in africa

Economics, Money

INTRODUCTION

Inflation has been described by economics in various ways. A simple description of this condition is a reduction in the value of money of a country. An underlying cause of this is imbalance between the quantity of goods and services and the volume of money in circulation in an economy. Increased volume of money in circulation with respect to the goods in the economy causes inflation.

Hyperinflation is considered an extreme case of inflation. Many economists only regard it hyperinflation when the rate of inflation is at least 50% per month or 1000% per annum. Most hyperinflations are caused by the government through their inability to spend within their means. Often as aftermath of wars, or other forms of crises, the government finds it difficult to tax its citizens to enable it run its administration. They resort to printing more currency to foot their bills thereby leading to increased volume of currency circulating within the economy relative to the available goods and services.

This paper presents a review of the effects of hyperinflation as it affects Africa from different perspectives.

The impact of hyperinflation on Small to Medium Enterprises in Harare, Zimbabwe. The case of the Formal and informal market at Avondale Shopping Centre. (Makusha, 2007).

In this research work, the author examines how hyperinflation has impacted upon Small and Medium Enterprises (SMEs) in Harare, Zimbabwe. The economy of Zimbabwe in 1997 was said to be the fastest growing but the reverse is the case. Due largely to flawed and unfavourable government policies especially land reforms that affected the mainstay of the country's economy. The government of Zimbabwe printed engaged in excessive printing of money to offset huge debts especially to the IMF, soon the country's inflation rate per year rose to 1017%. The Gross Domestic Product (GDP) declined by over 30% between the periods of 1997 – 2005. The fiscal deficit also was about 60% of GDP. This situation is typical of most hyperinflations in history.

In order to answer the research question, the study was based on three main theoretical frameworks. The first was based on a relation of volume of money to the goods in the economy from the work of Cagan. The second, based on the work of Frenkel deals with the exchange rate which results from the supply and demand for foreign currency. While the third framework known as the theory of rational expectations is from the work of Sargent and Wallace.

A qualitative research approach was used in this study using a shopping centre with different businesses in the formal and informal sectors of the economy, which typifies an SME. The sample population of respondents were deliberately selected to reflect the preference of the formal and informal sectors of SMEs. Being a qualitative research, open-ended interviews and questionnaires were administered on the sample population to serve as a primary source of data collection. The researcher conducted the interviews before and after the price control measures of intervention by the government to also understand the effect of the policy on SMEs. To further gain an understanding of the research, the author also made use of some relevant secondary source of data.

The data collected was analysed based on identified patterns of behaviour and into themes. Because the data collection was done before and after the price control by the government, the data was analysed based on these points.

Before the price control, the interview outcomes were grouped into these major themes; the prices of commodities increased too rapidly as compared to the real incomes of individuals, a drastic shortage of commodities in the market, increase in the price of foreign currency in the parallel market, inability of retailers to make profit and a shift in the spending pattern of consumers from luxury goods to basic necessities. A natural reaction of these businesses, to survive, is to increase the prices of their goods and services based on the cost price and the prevailing foreign exchange rates on the parallel market. This also necessitated an increase in the wages of the workers employed in the formal sectors.

After the price control measures of the government there were some more noticeable developments on the impact the measures in relation to hyperinflation in general, on SMEs. SMEs operated at a loss since they could not change prices to reflect the ever increasing cost prices of goods (Makusha, 2007).

The output of the research has shown the many negative effects that hyperinflation has on the SMEs that were used as case study.

Some of the perceived gaps would be in the accuracy of the answers provided by the respondents to the interview and questionnaires. The unwillingness and administrative constraint of some respondents implies that the outcome is not representative of the sample population size, which is small in the first place. Thus the outcome of this research cannot be representative of the general effect of hyperinflation in a wider population size.

A further pertinent research question that came up in this research would be to investigate the effect of government price control measures on SMEs.

Assessing the Money, Exchange Rate, Price Links during Hyperinflationary Episodes in the Democratic Republic of the Congo (Maswana, 2005).

The government's revenue took a dip from 11% of GDP during the periods 1986-1989 to about 5% during the periods 1990-1994. Broad money also grew from about 84% to over 2, 000% within the same periods, which confirms a deficit in government budget. The resulting inability of the government to foot its bills through taxes drove the government to print more money to finance its operations.

The research methodology uses an Autoregressive Distributed Lag Model on time series data and a four-step analysis approach. They are the Phillips-Perron tests of stationarity and Johansen test of co-integration, multivariate co-integration test, Hsiao's Granger non-causality method and conventional diagnostic test evaluation of results.

Results of the three variables – price, money and exchange rate – from the co-integration tests were subjected to the Dickey-Fuller and Augmented Dickey Fuller tests. There was a lack of co-integration among the variables at 5% and this implies no long-run relationship amongst the variables.

The findings of the tests show that the increase of money supply by the DRC government for public financing resulted in the hyperinflation as witnessed in the early 90s. It was also determined that during the hyperinflationary period, the Congolese central bank allowed the volume of money in circulation in the economy to be determined by the financing of the government. Also it was discovered that in the DRC, the exchange rate had a causal influence on inflation.

The conclusion of the paper was an identification of a direct causal effect between the price, volume of money in circulation and the exchange rate in the DRC. A reduction in the volume of money in circulation by the monetary authority will not simply remove inflation but must be accompanied with a measure reducing the exchange rate (Maswana, 2005). This is due to the identified complex causal relationship between the variables that were examined in this research work.

Impacts of outsourcing forestry operations in the hyperinflationary economic environment of Zimbabwe. (Chikuse, 2012).

Chikuse et al. In this paper investigate the effect of hyperinflation on forestry operations in Zimbabwe. Outsourcing involves contracting-out some functions of an organization in order to enable the organization focus on its core functions. The Zimbabwean outsourcing of forestry operations was borne out of the need to increase current capacity to meet up with changes in demand, and reduce the cost of production. The economic environment with hyperinflation, increasing unemployment, high interest rate and rising production costs forced some companies to close down while others that could barely survive opted for outsourcing.

The research questions asked by the author were primarily to determine the impact of outsourcing on forestry operations and its effectiveness while a secondary aim was to determine the sustainability of the mutual relationship between forestry companies and contractors.

The research uses a case study, the Penhalonga commercial forest region in Zimbabwe for the study. Collection of data for the study was through primary and secondary data sources using contractor productivity and availability of machines as indices. Productivity measurement being measured in terms of volume of timber produced per day relative to the target monthly volume. The primary data source was from interview and questionnaires administered on the participants and also through observation of production. The secondary source of data was the use of historical data

Analysis of the data was achieved using one-way analysis of variance (ANOVA) and Least Significant Difference (LSD) at 95% confidence level.

Some interesting output of the study revealed that the company employees were better at managing forestry as compared to contract workers. Also the random felling of trees by the contract staff failed to meet set standards and contributed to damaging the environment. The company employees however enjoyed better welfare benefits that the contract workers.

The major conclusions of the research show that due to the reduced cost of outsourcing, it remains a favourable option for forestry companies to continue to outsource. " It is viable for the companies to continue outsourcing because the production levels and environmental concerns were to a large extent addressed" (Chikuse et al., 2012). The relationship will not be mutual in the long-run and not viable for contractors. This is due to the fact that contractors were less equipped for the task and underpaid.

The paper has been able to examine the effect of hyperinflation on the forestry industry in Zimbabwe. One question that comes up in the research was the issue of environmental degradation by the activities of the sub-contractors. A further research could be carried out to determine the long-run effect of the environmental degradation on the forestry activities in the study area.

Effect of Inflation on the Growth and Development of the Nigerian Economy (An Empirical Analysis).

In this paper, the author examines the effect of inflation on the growth and development of the Nigerian economy.

The theoretical framework for the research is based on these theories; first is the Phillips Curve which is a situation that results when demand exceeds supply for goods in the economy, the second is the Monetarists based on the Quantity Theory of Money, the Keynesian and the Neo-Keynesian theory.

The research used time-series data covering 1970-2010 from the Central Bank of Nigeria. The Augmented Dickey-Fuller technique was employed to test the unit root property of the used models. The F-statistics was used to determine the Granger causality to accept or reject the null hypothesis when the F-statistics is respectively greater than and less than 2.

The concluding results of the study according to Umaru & Zubairu (2012) showed a direct causality between GDP and inflation and not inflation causing GDP. The effect of inflation on the growth of the economy was discovered to be a positive one as it was seen to encourage productivity.

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