Inflation

Inflation: The Cause, Effects, and Remedies Inflation is defined as the rising cost of goods and services measured against a baseline standard. Inflation is generally thought to have a negative impact on an economy. It lowers the purchasing power of consumers and erodes their savings. Inflation impacts a company by providing an unstable and unpredictable environment to operate in. Businesses are reluctant to make investments during periods of volatile inflation. Countries suffer from a tax rate that is based on pre-inflationary periods that are less than the current value. It also causes exports to go down as prices go up resulting in a trading deficit.

There have been cases around the globe known as hyperinflation. Though there is no official definition for it, it is generally accepted as a 50% annual inflation rate. Ecuador suffered through a 96% inflation rate in 2000 (" Background Note: Ecuador"). This was caused by a weak economy, massive debt from El Nino in 1998, and a floating currency. The president was ousted in Jan. 2000 and caused a 75% spike in a one-month period. The new government restructured the debt, privatized state owned industries, and tied the currency to the US dollar. The following years saw lower rates and it had dropped to 1. 9% in 2004 (" Background Note: Ecuador").

The war and economic hardships in the former Yugoslavia resulted in inflation rates in the period 1971-91 of 69 percent, with hyperinflation of more than 50 percent per month in 1989 (Hanke). According to experts, Slobodan Milosevic triggered the hyperinflation by granting $1. 8 billion in unauthorized credits to Serbian-owned enterprises (Hanke). It was only brought under control when the war ended and a new government was installed.

Though the UAE and Dubai have not seen these rates of inflation, it has been

on the rise in recent years. It was 2. 8% in 2002 and is estimated to hit 20% in 2006. That was up from 10. 5% in 2005 (" United Arab Emirates"). The rate was 3. 2% and 4. 6% in 2003-2004. The UAE's inflation rate has been fueled by soaring rents and to a lesser degree rising food costs. Government rent controls and an increase in housing supply is expected to ease the pressure and return the rate to less than 6% in 2007 (" IMF Sees UAE Inflation Dropping").

Governments can control the inflation rate by closely controlling the money supply. By limiting the amount of money in circulation, it will limit inflation. Countries who print paper money excessively create high inflation rates. It can also be somewhat controlled by maintaining stable interest rates. Governments can have very little positive effect attempting to control prices. When is inflation too high for the consumer According to the Federal Reserve Board, " Policymakers usually equate low inflation to annual increases of 1 to 2 percent in a broad index of consumer prices, excluding food and energy, a rate that the current Fed chairman, Ben Bernanke, once dubbed the optimal long-run inflation rate" (Anderson).

Works Cited

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