

INFLATION IN THE ECONOMY

¹PETER GWANDA

¹BA- Applied Economics, SBS, Sharda University

²SIYA BHATIA

²Research Scholar, SBS, Sharda University

Ch.Id:-ASU/GRF/EB/MILO/2022/Ch-20

DOI: <https://doi.org/10.52458/9789391842826.2022.eb.grf.asu.ch-20>

INTRODUCTION

Having the stable economic growth is the main objective for several nations. It is a very big challenge to maintain this objective because of several challenges which affect the growth of the economy.

It has been proven by the several economists that economic growth causes or leads to inflation in the economy. An Economist who is Keynesian stated that when the monetary goods produced in the economy are beyond, there is going to be the greater risk of inflation in the economy

High private investments can also lead to inflation. This is because more individuals will have more money in the economy as the result the purchasing power will decrease which will lead to an increase of the prices. Before the covid 19 started so many countries were building their economy. With the economic growth in those countries the prices of the commodities were increasing also.

LITERATURE REVIEW

This section consists of ideas of clarifying if there is connection between the economic growth and inflation. In the less developed countries economic growth is still subjective. The findings of other statistical data have reviewed that economic growth is the drive formula for inflation. Most of the times the inflation which is caused by the economic growth takes place in developed countries. This is because the developed countries have high economic growth and development.

The aggregate demand for the products will increase at fast rate than the supply which will result into the rise of the prices of the goods and services. In developed countries such as UK and united states, their GDP is high, the growth of the GDP without being looked into, it causes the inflation. Apart from the inflation

caused by the economic growth, It can also be caused by the several factors -for example during 2007 in Zimbabwe hyperinflation took place because of the political instability I.e corruption. The government of Zimbabwe tried to respond to the nation's debt by increasing the supply of money which in result led into high inflation. Reduction of the exports was also another reason for this inflation in Zimbabwe, the government was importing more and exporting less due to the low outputs. This is also applying to the general world right now especially in the developing countries.

In the developing countries the inflation Is commonly caused by the political instability and corruption. The most developing governments turn to have poor economic policies which in the long run result into the failing economy. In the developing nations the government officials are corrupt as the result the government funds and resources are misused which leads to the negative growth of the development. Empirical review forts the connection between inflation and economic growth. In this section we are trying to analyze how this the relationship between the inflation and economic growth. King fisher did some investigation on the Malaysian and He found out that there is the relation between economic growth and inflation. This relationship exists in the short run.

King fisher also conducted the study on the 93 countries to know the relationship between economic growth and inflation and He found out that the reduction of the investments leads to inflation in the economy of the country. Mallik did the investigation in 2001 and he concluded that there is the positive relation between economic growth and inflation. He did the investigations and Asian countries such as India, Pakistan and Bangladesh.

Empirical review for causality regression between inflation and economic growth

King fisher showed the causality relationship between the economic growth and inflation. He conducted the study In 1993 .He claimed that the growth of the gdp causes the inflation As the result there is the he proved that there is the causal relation between the economic growth and the inflation countries over the 1973-2006 periods.

The result showed that a bilateral causal relationship between growth and inflation between growth and inflation. It also reviewed that inflation is dangerous to growth while the effect from growth to inflation is good. In their explanation, they grouped the data set into high income, low income and developing countries, and the results showed that the negative effect of inflation on growth in low income countries is greater than in developing countries and high income countries.

How covid-19 has caused inflation

The coming of the pandemic has caused the inflation around the world. Most of the industries and companies were closed for almost a year and some months. Due to the low production of goods and services the aggregate demand was increasing. The few industries which were operating during the pandemic were not even producing enough as the result more people wanted to purchase hence due to low supply and high demand the prices were increased by the firms. The price of the basic life necessities such as food and other life supporting needs were increasing at the fast rate.

The services also their prices were high, for example- in the airline's companies, the air tickets prices were up during the covid 19 era. The small scale businesses were not operating efficiently due

to the health restrictions which were given by the government as the results the prices of the few commodities which were on the market were high and up to now the prices are still high on the world or the global market.

Recently Aljezera English news has released the report of how prices of the commodity have gone up In Nigeria, Africa

The prices of basic commodities have gone high and have doubled this is because Nigeria"s economy depends on the oil and due to covid 19 restrictions, the trade has been something hard to conduct in the country since the pandemic.




NIGERIA

The cost of basic necessities

Staple prices have risen for a third consecutive year. Here's how much basic necessities now cost in Nigeria compared with 2016.

1,000 NGN = \$2.4 USD



 *Number rounded to nearest 10
Source: SBM Intelligence | April 29, 2022



NIGERIA

The cost of basic necessities

Staple prices have risen for a third consecutive year. Here's how much basic necessities now cost in Nigeria compared with 2016.

1,000 NGN = \$2.4 USD



 Source: SBM Intelligence | April 29, 2022



The images above show the inflation in Nigeria. The price of these basic necessities have gone high rapidly in the space of 6 years (2016-2022).

People in Nigeria are really struggling to find the basic needs , the food and the cooking oil.The government is failing to control the inflation because of high inflation around the world as the result the poor are getting poor and people are crying with hunger.

Inflation in India

The governor of the reserve bank of India has recently reviewed during the presentation of the financial year of 2022-2023.

The annual inflation has increased with 6.95 percent in 2022 from 6.35 in October 2022.The cost of food and vegetable oils have good high with 7.68 and 18.79 percent respectively.

Currently there is the crisis of oil in India and this is because, India gets its majority palm oil from Indonesia, however Indonesia has banned the export of palm oil due to the shortage of labour, India has suffered with low palm oil in the stores and the market. Due to the shortage of labour in Indonesia, the government of Indonesia has banned the export of the palm oil to any other country. India being one of the countries which depend on Indonesian's palm oil it has been affected there has been increase of prices in the stores and the market for the cooking oil. This is breaking the income of people as the result most of the people are suffering.

Russian and Ukraine war influence on the inflation

Most of the Asian, European and the American countries have been affected by the war between Russia and Ukraine. Ever

since the war began, the United States has suffered with the inflation

The price of gas has gone up, the price of food and other commodities have gone up

With the war the global market has been affected in the supply chain, With the restrictions given to Russia, all the countries which were depending on Russia on food and gas are no longer getting the items as the result the prices of the commodities have gone high. Russia is one of the leading oil and gas export but due to war it is not exporting to the general world and as the result the countries are having the shortages of these items.

Ukraine is also one of the leading agricultural exports, with the war with Russia, Ukraine is not operating in agriculture export in so doing the countries are having the shortages of the agriculture products as the result the prices pf these commodities are going high. With this inflation income of the consumers has declined and we know wages take time to adjust so they have to dig deep in their pocket to maintain the current welfare or expenditure and the poor suffer more.

Inflationary pressure is going to persist due to the recent hike in fuel prices and increasing prices of imported food items emanating from geopolitics tensions.

Following the war of Russia and Ukraine most of the African Countries have suffered the inflation due to the shortage of oil and prices of the oil have gone high. Due to the shortage of labour in Indonesia, the government of Indonesia has banned the export of the palm oil to any other country. India being one of the countries which depend on Indonesian's palm oil it has been affected there has been increase of prices in the stores and the

market for the cooking oil. This is breaking the income of people as the result most of the people are suffering.

Monetarism

Friedman stated that, it's only the money which determines the price levels of products in the economy.

Monetarist insisted that the inflation will occur when there is high supply of money of money that the national gross income.

For this theory Phillips curve will be used in short run, this is because in long run the process will get associated with inflation as the result the inflation will rise. Without causing unemployment, output and other real economic variables. This concept is well known as neutrality of money.

The measures of inflation rate

The measure of the change of price of goods and services over the period of time is called price index. Alfred Marshal who is one of the father of economics stated that the inflation in the economy of the country can be calculated by taking the arithmetic mean of the laspyree and paasche price index.

The consumer price index measures the aggregate price level in the economy

The consumer price index measures the change in purchasing power of other country currency and the price level of basket of goods and services. The consumer price index is usually computed monthly and quarterly.

Wholesale Price Index

This is the index which measures and tracks the change in prices of goods in the stages before the retail level. This refers to the goods which are traded in the bulky goods.

Suppose in 2010 the price of 1kg of rice was Rs50 and in 2020 the price of 1kg of Rice was Rs70, this tells us that there has been an increase of Rs20 in the space of 10 years.

The summarized Economic growth and inflation table

Variable observation mean SD maximum minimum	
Inflation	Growth
20	20
2.2870	1.9868
1.974	2.6356
10.222	5.024
0.356	-5.3381
Inflation rate as from 2000 to 2010	

METHODOLOGY

In this research, the tools and sources from different angles have been use The primary source, personally I have developed my own ideas on the topic of Economic growth and inflation. I have developed the solutions on how the inflation can be overcome.

This research is also based on secondary information- the articles and other journals which were found on the google scholar, and reading the newspapers like times of India and watching news updates from the world is one television.

Objectives of the Research

The objectives of the research is to give the relationship between the economic growth and the inflation,how covid 19 has affected the global economy and the impact of Russian and Ukraine tension.

These three things have and are playing big roles in the inflation which taking place now around the world.

The measures which can be taken so that the economic growth can not cause the inflation is also another objective of this research.

Problem Statement of the Research

I have come up with this research in order to give the clear picture about how the inflation is caused by the economic growth and how covid 19 and Russia and Ukraine have impacted to the growth of inflation.

From neo classical and other theories of economic growth it has shown clearly that the economic growth causes the inflation in the country and from what people are facing now due to covid and Russia and Ukraine war, its showing clearly how the inflation is growing every single day

Need for Research

The general need for this research is to contribute my ideas on how the inflation cannot take place due to economic growth, covid 19 and Russia's invasion of Ukraine.

Looking at how the world economy has been rising from mid 2009 and how prices of the goods and services on the market have been rising,it has prompted me to conduct this research .The paper is all talking or discussing about economic growth and inflation .

In past countries like venezuela, zimbabwe, argentina and Iran experienced or faced high inflation and this was because of increase in the gdp, there political and economical instability have hindered the lives of millions of people.

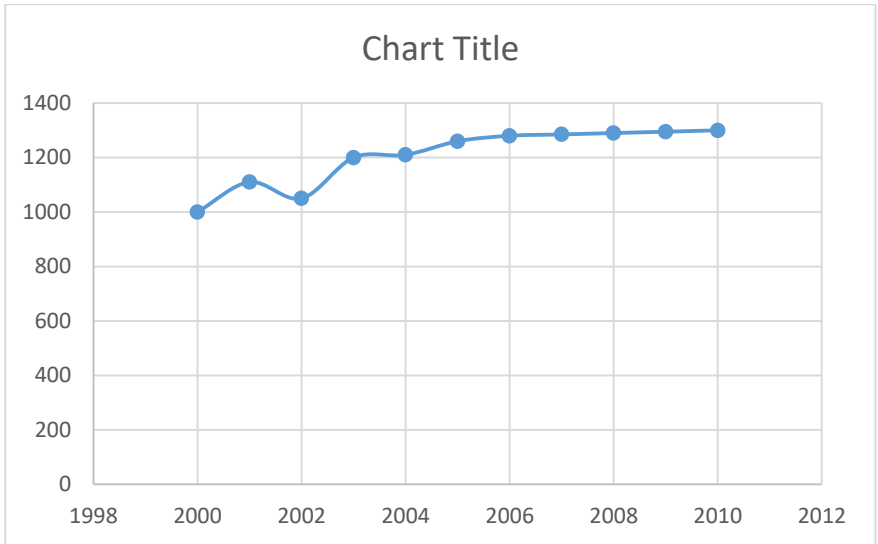
The reasons these countries and have rapid inflation is due to increase in gdp without controlling the economy and also the political instability .The low production of goods and services due to high demand and low supply .The increase of money supply by the central bank which has made people to have high income and the purchasing power increases.this will make the firms to increase their prices of goods and services

The wages will also increase to meet the demand of the public as the result the firms will be forced to employ more workers hence unemployment falls

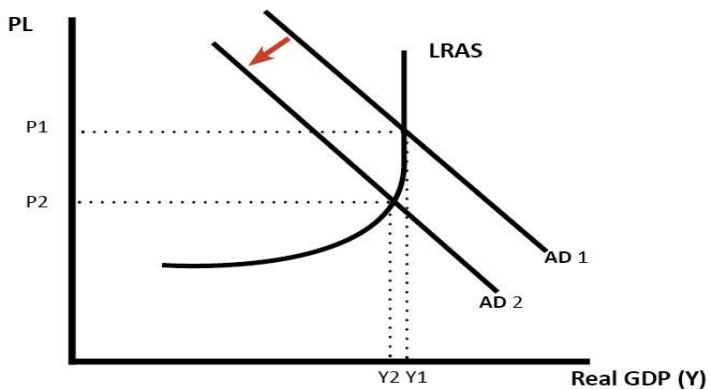
Analysis

The summarized Economic growth and inflation table

Variable observation mean SD maximum minimum	
Inflation	Growth
20	20
2.2870	1.9868
1.974	2.6356
10.222	5.024
0.356	-5.3381
Inflation rate as from 2000 to 2010	



The price of the basket kept on changing from 2000 to 2010 this shows that the inflation has been taking place,



FINDINGS

This paper has found and tested that the current inflation is caused by the three factors. The main factor which has caused the inflation in this 21st century is covid-19 pandemic. The pandemic has

played the big role in the rising of the prices of goods and services and it has been hard for the life to go back to normal. The world hasn't been the same since the pandemic economically.

The tensions between Russia and Ukraine currently is playing the role of big inflation. Russia being the big world gas export and oil export, with the sanctions given to it more countries are suffering with the rise of food and oil. Ukraine is said to be one of the agricultural export states and with the war it does not export the agricultural products now since its not in their best interest right now, hence countries who were depending on Ukraine for Agriculture are no longer getting the products and they are getting them somewhere else on the very expensive prices.

Before the pandemic and the Russia's invasion of Ukraine the inflation in most of economy was because of the economic growth. Some countries like United Kingdom the inflation. This is due to government. The consumer prices kept on increasing and there was the shortage of labour. The Fisher stated also that the high increase of money supply in the economy leads to the birth of inflation and it has been happening in several economies around the world

Possible Solutions to Overcome Inflation-

Inflation due to economic growth can be solved by the following ways -

To start with inflation in the economy can be solved by having more production in the economic system of the country. When the country has more production the prices of goods and services become cheaper and affordable.

Secondly the central bank can also play a role to control and avoid inflation. The central bank or reserve bank should control the supply of money in the economy, for example the central bank

should check the money market before the supply of money, this will help to avoid people to have too much money in their pockets which would result into inflation

In addition, increasing the interest rate, this will make the public to borrow less money hence people will not have more money as the result the inflation is controlled

Reducing the budget deficit is also another way or remedy of controlling and avoiding the inflation.

Fiscal policy increases the income tax which create and reduce spending, demand and inflationary pressures. If the economy of the nation had high inflation and negative economic growth, then reducing aggregate demand can be more difficult as reducing inflation that would result to lower final output and increase unemployment. They could still reduce inflation, but, it would be higher damaging to the economy.

Though it might be hard to come back to the better economy but the end of Russia and Ukraine tensions might reduce the world inflation that the world economy is facing now .Making the better economic policies and ending the corruption can also drive out the move to reduce and to en the inflation.

CONCLUSION

This research was conducted to show the relationship between the economic growth of the country and the inflation. Furthermore the paper has also explained more about the inflation which has been caused by the covid 19. Currently the countries are facing rapid increase of gas and oil because of Russia and Ukraine tensions.

The findings have proved that inflation has been caused by all the above factors with the continuation of the Russia and

Ukraine, the food stocks are going high and the developing countries will be the ones to suffer the most.

REFERENCE

1. 2005". Policy Analysis Unit (PAU) Working Paper 0604.
2. Akaike, H., 1973. *"Information theory and the extension of the maximum likelihood principle"*,
3. in B.N. Petrov and F. Csaki, eds., *Proceedings of the Second International Symposium on*
4. *Information Theory*, Budapest, pp. 267-281.
5. Barro, Robert, (1995), *"Inflation and Economic Growth"*, NBER Working Paper, 5326.
6. Bhatia, Rattan J., (1960), *"Inflation, Deflation, and Economic Development"*, IMF Staff Papers,
7. Vol. 8, no. 1, pp. 101-14.
8. Bruno, M. and Easterly, W., (1998), *"Inflation Crises and Long-Run Growth"*. Journal of
9. Monetary Economics, 41, pp. 3-26.
10. Christoffersen, P. and Doyle, P., (1998), *"From Inflation to Growth. Eight Years of Transition"*,
11. IMF Working Paper No. WP/98/100.