

Inflation

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Abstract: *Inflation is the long-term increase in prices of services and goods due to the devaluation of currency. Even though inflation is a bad thing, it might be a good thing to entrepreneurs. Usually, high inflation rate problems arise when the unexpected increase occurs. If incomes don't increase as the inflation increases, everyone's purchasing power will be effectively reduced which in turn leads to a stagnant or slow economy. In other words, Inflation, as mentioned, essentially how much the dollar is worth at a given moment with regards to purchasing.*

Keywords: Inflation

I. INTRODUCTION

What is inflation?

Inflation is the long-term increase in prices of services and goods due to the devaluation of currency. Even though inflation is a bad thing, it might be a good thing to entrepreneurs. Usually, high inflation rate problems arise when the unexpected increase occurs. If incomes don't increase as the inflation increases, everyone's purchasing power will be effectively reduced which in turn leads to a stagnant or slow economy. In other words, Inflation, as mentioned, essentially how much the dollar is worth at a given moment with regards to purchasing. The idea behind inflation being a force for good in the economy is that a manageable enough rate can spur economic growth without devaluing the currency so much that it becomes nearly worthless. Also, Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. ... Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency



Why does inflation occur?

Demand-pull inflation occurs when aggregate demand for goods and services in an economy rises more rapidly than an economy's productive capacity. One potential shock to aggregate demand might come from a central bank that rapidly increases the supply of money. Everyone knows that national debt is a bad thing. However, did you know that, over time, it can cause high inflation rates? If the national debt increases, the country has two options; raise taxes or print more money to pay off the debt. If taxes are increased, businesses will react by increasing prices in goods and services.

The latter will automatically lead to an increase in inflation as discussed above. Exchange Rates If a country increases the exposure to foreign marketplaces, its inflation will become worse. Cost-Push effect This is an economy theory that tries to explain what drives up the prices of consumer goods and services. This theory states that when companies faced with increased input costs like raw materials, they will retain their profitability by passing this increased cost of production onto consumers in the form of higher prices.

Types of inflation:

There are many different types of inflation, depending not only on what good is being priced but what the inflation rate actually is. For example, what happens if the inflation rate is well above the Fed's intended target? At a higher rate, yet still in the single digits, that's known as walking inflation. It is seen as concerning yet manageable. There are three major types of inflation: 1. Demand pull inflation: inflation from high demand for goods and low unemployment. 2. Cost push inflation: inflation caused by sudden decrease in the supply of goods, which would increase goods prices. Producers for these goods will increase the costs could then pass this on to consumers in the form of increased prices. 3. Anticipated: Prices rise because people expect them to rise.

How Is Inflation Measured?

How can you measure inflation as a single number when so many different goods and services exist? It's not easy. The U.S. government has a couple of different methods for calculating the current inflation rate: Consumer Price Index Effects of Inflation: How Does It Affect You? The impact of inflation affects many different groups when it hits. Not every group is affected the same way. Who benefits from inflation, and who doesn't? Generally, in a period of mild inflation, job-seekers can benefit. Increased spending can mean increased demand, and companies may decide to hire new employees to better manage the new demand. If you have borrowed money from a lender, inflation could be convenient for you. With the currency devalued, what you borrowed a year or two ago is now the equivalent to a lower amount of money. In this assumed manageable level of inflation, businesses that sell goods and services can benefit as well. A healthy amount of inflation is said to increase and incentivize spending more; at its best, that can work in a way that the increased costs are offset by an increase in sales. An unhealthy, unmanageable level, however, is disastrous for nearly everyone. If inflation spirals out of control, people lose faith in their currency. Financial institutions suffer as people pull their money out of them. Businesses suffer as their goods become too expensive for most people. Those with low incomes and fixed incomes suffer in any level of inflation. The value of a currency goes down, but incomes haven't necessarily risen. If someone's yearly income is only \$25,000 and the inflation rate from one year to the next is 2%, that salary is now the equivalent to what \$24,500 was the year prior. Inflation has a major effect on the entire country's economy. It impacts not only the government, but the little things in the average person's daily life. Both a cause and effect of how the economy is doing, inflation has both its fans and detractors. Many think that certain amounts of inflation are good for a thriving economy, but that larger rates raise concerns. It can devalue the currency significantly and, at worse, has been a key component to recessions.

Effects of inflation

Rising prices, known as inflation, impact the cost of living, the cost of doing business, borrowing money, mortgages, corporate and government bond yields, and every other facet of the economy. Inflation can be both beneficial to economic recovery and, in some cases, negative. How does inflation affect companies? When prices rise for energy, food, commodities, and other goods and services, the entire economy is affected. Rising prices, known as inflation, impact the cost of living, the cost of doing business, borrowing money, mortgages, corporate and government bond yields, and every other facet of the economy.

Impact of inflation on business

A small increase in inflation can hurt the capital expenditure and increase the cost of production in a company. However, when controlled, inflation can act as a healthy stimulus for the economy. Larger corporations can handle the effects of inflation while small firms often take a direct hit. High inflation rates can also have an adverse impact on currency exchange rates which will eventually result in an export slump.

How to defeat inflation

To entrepreneurs, beating inflation is very easy. If inflation stays for a longer period than expected in the market, you are more likely to notice it. If you didn't plan for it, you might realize that your savings aren't enough to enable you to reach your goals.

What do you mean by hyperinflation?

Definition: Hyperinflation is a rapid and often uncontrollable currency devaluation causing the prices of goods and services to skyrocket in a short period of time

Why is hyperinflation bad?

In economics, hyperinflation is very high and typically accelerating inflation. It quickly erodes the real value of the local currency, as the prices of all goods increase. This causes people to minimize their holdings in that currency as they usually switch to more stable foreign currencies, often the US Dollar.

Example of inflation:

By 2014, Venezuela had entered an economic recession and by 2016, the country had an inflation rate of 800%, the highest in its history. The International Monetary Fund expects inflation in Venezuela to be 1,000,000% for 2018. There, inflation has been the largest in the world for the past three years. ... Both political and economic reasons are causes of rapid acceleration of inflation in Venezuela: On the political front, shortages of food, medicine, electricity and other necessities are causing riots and political instability. Hyperinflation starts when a country's government begins printing money to pay for its spending. As it increases the money supply, prices rise as in regular inflation. An increase in the money supply is one of the two causes of inflation. ... That excessive demand aggravates inflation.

II. CONCLUSION

Relationship between inflation and entrepreneurship:1 There is a long tradition of linking entrepreneurship to economic growth. ... When entrepreneurship is the driving force of long run economic growth, inflation can increase growth, while its impact on output at given productivity level. This channel is novel and has many testable implications. Why would Inflation decrease? Deflation, or negative inflation, happens when prices fall because the supply of goods is higher than the demand for those goods. This is usually because of a reduction in money, credit or consumer spending. Is high inflation good for entrepreneurs and small businesses? Interest rates will never remain low forever. This is what small businesses and entrepreneurs fear most. If the interest rates increase, small businesses will require more funds to produce goods and services. However, rising interest rates can be a good thing to entrepreneurs and here's how: More funding options Low-interest rates tend to tie lenders hands. Without much spread (the difference between loans and interest rates), most banks and lenders become less willing to take riskier loans. On the other hand, high-interest rates encourage banks to give loans to small businesses. The chance to increase prices When inflation is small, there's a lot of capital. However, if it increases, production costs increase, and this gives entrepreneurs an opportunity to raise prices for their goods and services. Beating inflation is not that challenging to entrepreneurs. With the best tools at hand, you can use investing to beat high inflation rates. Small businesses are facing many economic, sociocultural physical/emotional problems that might hinder their ability to become effective entrepreneurial businesses. 1 Al-Awlaqi, Aamer, and Habtoor, "The Effect of Entrepreneurship Training on Entrepreneurial Orientation: Evidence from a Regression Discontinuity Design on Micro-Sized Businesses."

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