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104. Inflation as a problem of Ukrainian economy

Tania Kopiika, Nataliya Bozhok
National University of Food Technologies

Introduction, Inflation is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Inflation is a problem because it devalues the money that's in circulation. The monetary unit has less buying power, leading to the rise of costs which further increases the cost of living. This increase is usually not matched by annual increases in wage. Most countries central banks will try to sustain an inflation rate of 2-3%.

Resources and methods : Inflation has been investigated by such scientists as A. Starobinsky, A. Guth, A. Linde, P. J. Steinhardt and many others. Alexei Starobinsky of the L.D. Landau Institute of Theoretical Physics in Moscow developed the first realistic inflation theory in 1979 ("Spectrum of Relict Gravitational Radiation and The Early State of the Universe"). This "graceful exit problem" was solved by Andrei Linde in the new inflationary scenario and the same result was also obtained by Andreas Albrecht and Paul J. Steinhardt. At the same time, Linde published an alternative model of inflation that also reproduced the same successes of new inflation entitled "Eternally Existing Self-Reproducing Chaotic Inflationary Universe", which provides a detailed description of what has become known as the Chaotic Inflation theory or eternal inflation. Alan Guth's investigated eternal inflation and its implications. The scientific methods to be used in the thesis include theoretical and methodological analysis and method of synthesis.

Inflation is when the prices of goods and services increase. There are four main types of inflation, categorized by their speed: creeping, walking, galloping, and hyperinflation. There are also many types of asset inflation and of course wage inflation.

1. Creeping Inflation. Creeping or mild inflation is when prices rise 3% a year or less. When prices rise 2% or less, it's actually beneficial to economic growth because this mild inflation sets expectations that prices will continue to rise. As a result, it sparks increased demand. By increasing demand, mild inflation drives economic expansion.

2. Walking Inflation. This type of strong, or pernicious, inflation is between 3-10% a year. It is harmful to the economy because it heats up economic growth too fast. People start to buy more than they need. This drives demand even further, so that suppliers can't keep up. As a result, common goods and services are priced out of the reach of most people.

3. Galloping Inflation. When inflation rises to ten percent or greater, it wreaks absolute havoc on the economy. Money loses value so fast that business and employee income can't keep up with costs and prices. Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable, and government leaders lose credibility. Galloping inflation must be prevented.

4. Hyperinflation is when the prices skyrocket more than 50% -- a month. It is fortunately very rare. In fact, most examples of hyperinflation have occurred when the government printed money recklessly to pay for war. [2]. There were all kinds of inflation in its Ukrainian history [3].

Stagflation is just like its name says: when economic growth is stagnant, but there still is price inflation. The core inflation rate measures rising prices in everything except food and energy. Deflation is the opposite of inflation -- it's when prices fall. It's caused when an asset bubble bursts. Wage inflation is when workers pay rises faster than the cost of living. This occurs when there is a shortage of workers, when labor unions negotiate ever-higher wages, or when workers effectively control their own pay. A worker shortage occurs whenever unemployment is below 4% [2].

Results: The consequences of inflation depend on the degree to which it is anticipated. If everyone in the society knows how prices have been changing, are changing, and are going to change in the future, then everyone can allow for the changing value of the dollar over time in setting future prices, making contracts for future payments, and so on. If individuals don't anticipate inflation or expecting inflation that does not occur, the results are much more serious [1].

Conclusions: The world practice knows a whole arsenal to fight inflation. The point is just to use it skillfully. This arsenal of some convention can be divided into two parts. Well-known anti-inflation strategy that combines the goals and methods of long-term exposure. There is anti-inflationary tactics, from which you can expect results within a relatively short period of time. The main methods of curbing inflation include: quenching of inflation expectations, effective monetary policy, reducing the budget deficit, rationalization of foreign policy, tactical anti-inflation measures.

References

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