SCIENCE AND INNOVATION
INTERNATIONAL SCIENTIFIC JOURNAL VOLUME 1 ISSUE 7
UIF-2022: 8.2 | ISSN: 2181-3337

THE EFFECTS OF INFLATION TO THE COUNTRY'S ECONOMY AND THE MAIN WAYS OF DECREASING IT

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https://doi.org/10.5281/zenodo.7268113

Abstract. *This article illustrates the meaning of inflation and the impacts to the economy of one country. The inflation and unemployment is connected to each other. A stochastic general equilibrium model is constructed which is capable of examining the covariance properties between inflation and unemployment, both conditioned and unconditioned upon the state of exogenous real and monetary factors. Indivisibilities introduced into agents' labor choice decisions produce unemployment in equilibrium. It is shown that indigenous forces in a competitive economy can result in the traditional negative relationship between inflation and unemployment. The policymaker, while perhaps observing a negatively sloped Phillips curve, actually faces Friedman's positively sloped one. The main ways are given to decline the inflation in this article.*

Keywords*: Inflation, unemployment, money, deflation, consumers, governments, monetary policymakers, money supply.*

ВЛИЯНИЕ ИНФЛЯЦИИ НА ЭКОНОМИКУ СТРАНЫ И ОСНОВНЫЕ ПУТИ ЕЕ СНИЖЕНИЯ

Аннотация*. Эта статья иллюстрирует значение инфляции и ее влияние на экономику одной страны. Инфляция и безработица связаны друг с другом. Построена стохастическая модель общего равновесия, способная исследовать свойства ковариации между инфляцией и безработицей, как обусловленные, так и не обусловленные состоянием экзогенных реальных и монетарных факторов. Неделимость, введенная в решения агентов о выборе труда, порождает безработицу в равновесии. Показано, что местные силы в конкурентной экономике могут привести к традиционной отрицательной связи между инфляцией и безработицей. Политик, возможно, наблюдая кривую Филлипса с отрицательным наклоном, на самом деле сталкивается с кривой Фридмана с положительным наклоном. В статье приведены основные пути снижения инфляции.*

Ключевые слова*: инфляция, безработица, деньги, дефляция, потребители, правительства, монетарная политика, денежная масса.*

INTRODUCTION

Inflation stabilization does not come without costs. It is usually associated with a recession which generally means more unemployment and lower real wages. But accelerating inflation also reduces real wages and increases poverty. Inflation allows lenders to charge interest to offset the inflation likely to devalue repayments. Inflation also helps borrowers' service debt by allowing them to make future repayments with inflated currency. In contrast, deflation makes it increasingly costlier to service debt in real terms, since borrowers' income would be likely to decline alongside prices. Because deflation represents a departure from the norm, it's also more likely to trigger expectations for additional deflation, causing further spending and income declines and ultimately widespread loan defaults that can set off a banking crisis.

One reason modest inflation rather than deflation is the norm is that wages are sticky to the downside. Workers tend to resist attempts to cut their wages during an economic downturn, with layoffs the likeliest alternative for businesses facing a downturn in demand. A positive inflation rate allows a wage freeze to serve as a cut in labor costs in real terms.

MATERIALS AND METHODS

Inflation's benefits as insurance against deflation decline once it exceeds the customary and expected rate, because inflation can also spiral out of control if high enough, as we'll discuss below.

Inflation is a highly controversial term which has undergone modification since it was first defined by the neo-classical economists. They meant by it a galloping rise in prices as a result of the excessive increase in the quantity of money. They regarded it "as a destroying disease born out of lack of monetary control whose results undermined the rules of business, creating havoc in markets and financial ruin of even the prudent."

Inflation is the process of continuously rising prices or equivalently, continuously falling the value of money. Its importance stems from the pervasive role played by money in a modern economy. The case of money is different precisely because the role that it plays in co-ordinating economic activity ensures that changes in its value over time impinge upon the well-being of people.

RESULTS

Money is a means of exchange, a store of value, and a unit of account. The ability of an asset to act as a store of value is a necessary precondition to its fulfilling the role of a means of exchange. A falling value of money detracts from its desirability as a store of value and begins to affect for the worse the efficiency of the mechanism of exchange in a market economy. Money's role as a unit of account stems from its use as a means of exchange, and in this role too it is undermined by inflation.

But when the inflation rate sharply accelerates and stays high, expectations of future inflation will eventually begin to rise accordingly. As those expectations rise, workers start demanding larger wage increases and employers pass on those costs by raising prices on output, setting off a wage-price spiral.

Governments generally try to keep inflation within an optimal range that promotes growth without dramatically reducing the purchasing power of the currency. In the There are many methods used to control inflation and, while none are sure bets, some have been more effective and inflicted less collateral damage than others. Price Controls. Price controls are price caps or floors mandated by the government and applied to specific goods. Wage controls can be implemented in tandem with price controls to suppress wage push inflation.

Contractionary Monetary Policy. Contractionary monetary policy is now a more popular method of controlling inflation. The goal of a contractionary policy is to reduce the money supply within an economy by increasing interest rates. This helps slow economic growth by making credit more expensive, which reduces consumer and business spending.

Higher interest rates on government securities also slow growth by incentivizing banks and investors to buy Treasuries, which guarantee a set rate of return, instead of the riskier equity investments that benefit from low rates.

DISCUSSION

Discount Rate. The discount rate is the interest rate charged on loans made by the Federal Reserve to commercial banks and other financial institutions. The lending facility through which these short-term loans are made is called the discount window. The discount rate, which is the same across all Reserve Banks, is set by consensus of each regional bank's board of directors and the Fed's Board of Governors.

Though the discount window's primary purpose is to fulfill banks' short-term liquidity needs and maintain stability in the banking system, the discount rate is yet another interest rate that needs to be raised to temper inflation.

CONCLUSION

The Bottom Line. Governments have relatively few ways to stop inflation. They can put a cap on prices, but the broad price controls required to impact inflation don't have a great track record. Pursuing a contractionary monetary policy is the preferred method of controlling inflation today, but so-called soft landings are hard to pull off.

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