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Causes and Effects of Inflation in the Business Sectors: An Overview in Bangladesh Context

Mohiuddin Ahmed Mojumder*
MPhil Researcher, Bangladesh University of Professionals (BUP),
Mirpur Cantonment, Dhaka, Bangladesh

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Abstract: The present paper aimed at reviewing the issues of inflation in the different business sectors of Bangladesh during the last few years.Inflation is the proportion of the cost of goods and services that increases over time. It is a market force that we cannot control, so it's important to have both a proactive and reactive strategy. If it is high, it might be better to wait until it drops.This research shows that the effects of inflation on business growth very negative as well as positively in a country over time.The study moreover finds that the outcomes from this study rely upon country-specific qualities, the data index used, and the methodology employed. This is a review survey, in detail, from the existing research on the causes and effects of inflation in the business sector and economic growth in developing countries like Bangladesh.

Introduction

Inflation is the general increase in price within the economy. Measured by a rising or falling percentage each year, each country has its inflation rates (esme, n.d.).Inflation is an intensification, which aids the general price of products and services over time. The inflation rate finalized the percentage change in the general price catalog. When inflation has its change with the economy, the impacts of inflation in foreign trade appears. The export-import business of Bangladesh plays a vital role in the economy. As some part of the economy gets imbalanced due to inflation then another part of it becomes unstable in its place. Inflation occurs in several countries like Japan, Zimbabwe, and Sri Lanka, and so on. When inflation happens, it has an impact on every corner of the economy, for instance when a country imports raw material the local currency makes import expensive, and consequently, the cost of production for goods increases to the price of that raw materials. However, this comprehensive review-based study analyzes the impacts of inflation in foreign trade and the relationship between export-import businesses of Bangladesh (Encyclopedia, n.d. & Lynch, n.d.).Inflationtends to deject investmentand long-term economic development. This is a direct result of the susceptibility and misperception that is bound to happen during times of high inflation. Low inflation is said to empower more noteworthy security and urge firms to face challenges and invest (Pettinger, 2019).

Inflation Indicator

Inflation is an increase in the level of prices of the goods and services that households buy. It is measured as the rate of change of those prices. Typically, prices rise over time, but prices can also

*Major, AEC, Bangladesh Army & Instructor, Class 'B', Army School of Education and Administration (ASEA), Shaheed Salahuddin Cantonment, Ghatail, Tangail

fall in a situation called deflation (Education, n.d.). The most well-known pointer of inflation is the Consumer Price Index (CPI), which measures the percentage change in the price of a basket of goods and services consumed by households. The following formula can indicate a country's inflation rate.

$$Inflation = \frac{Price_{Year\,2} - Price_{Year\,1}}{Price_{Year\,1}} \times 100$$

Causes of Inflation

Inflation stands there is a sustained increase in the price level.The main cause of inflation either excess growth of the economy or cost-push factors (Tutor2U, n.d.). Cost-push inflation can be caused again by many factors: Rising wages: Rising wages often the main cause of cost-push inflation because wages are the most noteworthy cost for many companies.As class full employment with labor shortages, workers can get more wages. The price will rise and overinflating is usually happened by an extreme increase in the money supply when an increase in the costs of business companies, then businesses pass this through consumers.In 2011/12, the UK faced a rise in cost-push inflation, partly due to the depreciation of the Pound against the Euro (Encyclopedia, n.d. &Oner, n. d.) and It appears when the economy is in or near to full employment, and then an increase in aggregate demand leads toward an increase in the price level.If the business companies become less productive and let the costs to rise, this can lead to higher prices. When the VAT raises, this can lead to higher prices. The oil price increase by 20%, can have a significant impact on most goods in the budget and this can lead to cost-push inflation. If the Central Bank prints more money, it will have an impact on goods and prices.There is even an amount of inflation, which can disregard the effect of temporary tax rises or decreases (Pettinger, 2019).As companies turn into full capacity, they respond by putting up prices leading to inflation. If there is deflation, then import prices become more expensive because of leading to an increase in inflation. As it is about inflation and prices, then the best example here can be oil.Though rising house prices do not directly boost inflation, they can be the reason for a positive wealth effect and encourage consumer-led economic growth.For instance, deflation stands for Pound is worthless.

Effects of Inflation on Business

Consumer purchasing is a big issue for the rapid rising of prices will cause consumers to stay aback from droves. Gradually increase prices will prevent a sudden price hike, if the contestants do not respond similarly; they will have to increase their prices suddenly.Inventory costsaffect the rapidly rising prices, which not only affect the price that consumers pay, they also affect the businesses. Business companies have to pay for materials and inventory. When replacement inventory costs become more than the inventory they just sold, it can lead to inventory shortages. Price Changes is also a cause when service and product prices oscillate; businesses have to devote money printing new menus or changing price tags to list the correct prices. These costs are called 'menu costs', and they touch brick and mortar businesses most seriously. To reduce, the labor complicated in altering prices in the 1970's large department stores stationary putting tags on separate items and only put them on defers in its place(McMahon, 2017).

Borrowing impacts initially in the inflation cycle, banks are vigorously expanding their loan portfolio as the easy money policies of the respective authority thrill the economy of a country into overdrive. During this artificial prosperity, many businesses yield to the lure of easy money and reason that getting a business loan is a good idea. The number that because inflation rates are rising, the cost (in purchasing power) of paying the loan back will be less than the value of the loan taken out. However, as is the case with any debt, companies must be keen about how much they take out and for what, because even cheaper money will not bail them out if incomes did not increase from the new business undertaking or expansion. Furthermore, it seems a race where someone loses remaining in the last position (McMahon, 2017).

Investment as well as a major issue for businesses success hard by high inflation, upgrading out-of-date electronics and equipment becomes nigh impossible. The office might advantage from a new computer, and a remodel might appeal to customers, but those kinds of upgrades are not going to be possible. Not only are profits squat, but high inflation makes even normal everyday-costs expensive. High inflation impasses major investment. When inflation rises substantially above the federal target, investor sureness in the economy is reduced. This causes disciplinary interest rates on loans as investors seek reappearance on their investments. This is because they want recompense for the increased risk of lending money. In the long term, this decreases business growth preventing businesses from taking advantage of market changes**.**

Positive Impact of Inflation on Business

Inflation erodes purchasing power; this fact is very relevant to business inflation. Because when the impact falls on business the purchasing power becomes decreasing due to high prices. For instance, Pepsi used to sell lower prices ten years ago and the difference is clear with a present price range. Such a price change could have resulted from a surge in the popularity of Pepsi. In those scenarios, the price of Pepsi products would rise, but the rest of the economy would carry on largely unaffected. Sometimes inflation encourages spending and investing, for consumers it has commonly happened. Companies encourage buying their products before it's getting out of stock. Moreover, some shared business encourages investing in them. It expands the current economy and the economy runs well. Therefore, the impact is here work positively.Due to inflation increase, the growth of the economy: inflation discourages saving money in the banks. Rather it boosts the savers to spend or invest their money in the economic field. That is the growth of the economy. Saving money is the lazy asset of the country.

However, when it runs through the current economy then it becomes an active part of the growth economy (Floyd, 2019).It raises the cost of borrowing: If interest rates are low, companies and distinct can borrow spontaneously to start a business. They can earn degrees; many workers can work in firms. Thus, the economy will be more expanded. On the other hand, low rates encourage spending and investing which strengthen inflation in turn. Inflation reduces unemployment sometimes: with straight thought, we can perceive that if there enough chance for business and making workplaces, there can work numeral workers, and thus the unemployment can be reduced. It helps in both ways, for the economy and unemployment problem as well (Floyd, 2019).

Effect on Financial Sector

The economy of Bangladesh has been experiencing a twofold digit expansion.However, twofold digit inflation of more than 10% must have some reasons (Uddin, Chowdhury & Hossain, 2014). A deficiency of oil production or energy crisis around the world, increment in energy costs, and cost-of-production in blend with an interest. Pulling inflation from expansionary financial approaches has caused steady inflation.It is practically certain that we need to live with this twofold digit inflation.Manufacturers, businessmen, Producers, and brokers are excessively worried about increasing costs of crude materials, energies including power, gas, and oil and the greater expense of production. It is difficult to accept that we can return to single-digit inflation. Osmani (2007) argues that rising world costs, obliging financial strategy and exchange scale policy, especially the value of the Taka against the Dollar (non-appreciation of Taka against Dollar, while Dollar was devaluing against all global currencies) all have most likely contributed to the ongoing inflation in Bangladesh. The econometric investigation of inflation in Bangladesh, over the period 1972-2012, demonstrates that increments in import costs and the prime leading interest price are the fundamental determinants of inflation (Bhattacharjee, 2013).

Effects of Inflation on Foreign Trade and Export-Import

In the time of globalization, we have entered into an open economy circumstance where worldwide exchange assumes an essential role during the process of production and utilization choice. In a shut financial circumstance, other than several causative elements, inflation is ascribed by overabundance requests made inside that economy. However, in an open economy inflation is additionally influenced by global exchange circumstances that is an import and fair condition. Reacting to this overabundance request nation may profit import strategy (Mukit,2014). Typically, an ascent in imports will cause devaluation in the conversion scale. Inflation aggravates everybody off by diminishing the buying intensity of earnings, dissolving expectations for everyday comforts, and adding, from multiple points of view to life's vulnerabilities (Lipsey et al., 1982: 752). Inflation aggravates everybody off by lessening the buying intensity of salaries, for everyday comforts, from various perspectives to life's vulnerabilities. Imported inflation through the deterioration of the exchange rate, import reliance, cash supply growth, remittance low, loan fee differentials, the high development pace of populace, increment of cash wage without productivity is the main factors that result in inflation in Bangladesh.

Effects of Inflation on Domestic Business

Bangladesh has mainly two types of products for exports; they are primary goods and industrial goods. Changes in financing cost, inflation cost, current record, and GDP influence exchange rate variance. In the time of globalization and money related progression, the exchange rate assumes a significant part in worldwide trade and finance for a little open economy like Bangladesh. In various nations, the study shows that there is a hypothetical connection between conversion standard changes and different macroeconomic indicators such as financing cost, inflation rate, current record, and (GDP). This may at last outcomes in a macroeconomic disequilibrium that would prompt genuine exchange scale degrading to address for outer uneven characters. There is a solid connection between exchange scale export performance and GDP development. An appropriate administration of the exchange rate ought to be a basic part of business strategy outfitted to prevalent export performance and high monetary growth (Sattar & Shareef, 2019).

Effect on other Sectors

The customary case is that inflation is particularly exorbitant for poor people since their buying power is disintegrated particularly for those gatherings whose income are fixed in ostensible terms, their advantages are debased more as they hold a bigger portion of their benefits in fluid-structure contrasted and the non-poor, and it is hard for the poor to fence against inflation because of their restricted admittance to the financial system. In Bangladesh, 40 percent of 160 million people live on less than one dollar a day (Ghosh & Hossain, 2020). Numerous miserable people, particularly the outrageous poor in provincial zones, are moderately less presented to the financial economy than the urban populace. It might be contended that even though inflation disintegrates the helpless' compensation payments, the seizure of their investment funds is not uniquely genuine as they hold little money. Also, the poor are regularly net borrowers, and inflation conceivably pays off their obligation trouble.

Conclusion

This study is about inflation and its impact on business. There is also understandable that the foreign trade and export-import business of Bangladesh much relevant. Inflation has a negative impact as well as the positive impact as usual. However, it depends on the economic experts and mostly on the government what they decide to turn it how. The impact of inflation has been haunting over the years in the mentioned countries above there. If the proper steps can take, the impact can be implemented in the right way that is upright for a state economy (Muktadir& Shafiullah, 2014). So, the respective authorities should take initiatives in this regard for the actual and glowing national development of the country.

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