

HYPERINFLATION

Annotation. The article deals with the problems of hyperinflation. Different definitions of hyperinflation were studied; basic characteristics of hyperinflation were provided. Some economic processes that cause hyperinflation were outlined and the ways of overcoming hyperinflation were regarded.

Анотація. Розглянуто деякі аспекти гіперінфляції. Вивчено різні дефініції гіперінфляції та її головні показники. Розглянуто економічні процеси, що викликають гіперінфляцію та шляхи подолання цієї проблеми.

Аннотация. Рассмотрены некоторые аспекты гиперинфляции. Изучены различные определения гиперинфляции, ее основные характеристики. Рассмотрены экономические процессы, которые вызывают гиперинфляцию и пути преодоления этой проблемы.

Keywords: hyperinflation, value, inflation, supply shock, money supply, currency.

Among factors such as exchange rates and interest rates, hyperinflation is one of the most important determinants of a country's level of economic health.

The topicality of this article is related to the fact that hyperinflation plays a significant role in a country's economy and all its dimensions.

The aim of this article is to study the nature of hyperinflation, its causes and aftermath.

There are many economists who work in the same direction such as Phillip Cagan, Jacek Rostowski and Steven M. Sheffrin.

In economy, hyperinflation occurs when a country experiences very high, accelerating, and perceptibly "unstoppable" rates of inflation. Under such conditions, the general price level within economy rapidly increases as the currency quickly loses real value. Meanwhile, the real values of specific economic items generally stay the same with respect to each other, and in terms of other relatively stable foreign currencies. This includes the economic items that generally constitute the government's expenses [1].

Unlike regular inflation, where this process is protracted and not generally noticeable except perhaps studying past market prices, hyperinflation sees a rapid and continuing increase in the supply of money, and the cost of goods.

Hyperinflation is often associated with wars, their aftermath, sociopolitical upheavals, or other crises that make it difficult for the government to tax the population, as a sudden and sharp decrease in tax revenue coupled with a strong effort to maintain the status quo can be a direct trigger of hyperinflation [2].

There are a couple of theories on the causes of high or hyper inflation:

Supply Shocks.

This theory, based on historical analysis, claims that past hyperinflations were caused by some sort of extreme negative supply shock, often associated with wars or natural disasters.

Money Supply.

This theory claims that hyperinflation occurs when there is a continuing (and often accelerating) rapid increase in the amount of money that is not supported by a corresponding growth in the output of goods and services.

Hyperinflation has always been a traumatic experience for the area which suffers it, and the next policy regime almost always enacts policies to prevent its recurrence. Often this means making the central bank very aggressive about maintaining price stability, as it was in the case of German Bundesbank or moving to some hard basis of currency such as a currency board. Many governments have enacted extremely stiff wage and price control in the wake of hyperinflation but this does not prevent further inflating of money supply by its central bank, and always leads to widespread shortages of consumer goods if the controls are rigidly enforced [3].

Ukraine is a good example of hyperinflation. Ukraine experienced its worst inflation between 1992 and 1994. In 1992, the Ukrainian Karbovanets was introduced, which was exchanged with the defunct Soviet ruble at a rate of 1 UAK = 1 SUR. Before 1993, the highest denomination was 1,000 Karbovanets. By 1995, it was 1,000,000 Karbovanets. In 1996, during the transition to Hryvna and the subsequent phase out of Karbovanets, the exchange rate was 100,000 UAK = 1 UAH. By some estimates, inflation for the entire calendar year of 1993 was 10,000 % or higher, with retail prices reaching over 100 times their pre-1993 level by the end of the year. A 100,000 Ukrainian Karbovanets were used between 1992 and 1996. In 1996, they were taken out of circulation, and replaced by the Hryvnia at an exchange rate of 100,000 Karbovanets = 1 Hryvnia (approx. USD 0.50 at that time, about USD 0.20 as of 2007) [4].

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