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Research Article

THE EFFECTIVE WAYS OF CONTROLLING CREEPING INFLATION SITUATION OF BORNO STATE

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Dr Umar Mohammed Ali
Lecturer Department of Business Management, City university cambodia Africa campus Liberia, Cambodia

Abstract

This research focus on effective ways of controlling creeping inflation situation of Borno state , the research reveal that , Borno state government need to Introduce fiscal policy and monetary policy in order to control the inflation situation of the state , doing this will make the economic activities of the state will move forward , Inflation as measured by changes in the consumer price index (CPI) increases in the cost of living due to a number of inherent conceptual differences and measurement issues. Even so, other measures of the cost of living have increased by a similar amount to the CPI over the past decade. Measured inflation has been higher for some households and socio-economic groups than for others, Fiscal policy is one of the tools use to control the volume of the currency circulating in the country in order to achieve it goals and objectives properly with view of creating more jobs opportunities and attract foreign investors.

Keywords

Inflation, Ways, Effective, Controlling, Creeping, Situation, State.

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Introduction

The theory of Inflation is the analysis of one of the major economic problems i.e a rise in the general price of a goods and services .

Inflation refers to a raise in the general price level of goods and services. Alternatively, it means a decline in the purchasing power of a unit of money. The general price level therefore varies inversely with the purchasing power decrease by one half (1/2). It's a condition in which the volume of the purchasing power is persistently running ahead of the output goods and services, so that there is a continues tendency for prices both of commodities and factors of production to rise because the supply of goods and services and factors of production fails to keep pace with the demand for them.

Inflation is also associated with increase in money supply. Changes in money supply, however, may and may not affect prices. If an increase in money supply is accompanied by a proportional increase in the quantity of goods and services available for purchase. In Borno state the price of a all commodities are always rising up such as Kekenapek , Car, oils ,Bags of Rice , House rent, fuel etc when it come to compared to other state goods. The research reveal that Borno state inflation situation are chronic inflation. The state government using different policy to control the inflationary situation.

What Is Inflation

Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time.

Types of inflation

1. Creeping inflation can become chronic inflation like the one experienced in collie and Brazil at the rate of 20 to 90 percent and which has gone on decade after decade.
2. Hyperinflation or galloping inflation. This is a situation in which increases in prices become a signal for an increase in wages and costs in an economy. This send prices up, and the process continues. Such a rapid rise in prices is termed hyperinflation. An example of hyperinflation is the inflation that was

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experienced in Germany between 1920 and 1923.

CAUSES OF INFLATION

The demand pull theory. The proponents of this theory hold that the existence of excess demand for final goods and services would cause their prices to rise. Profits would improve as a consequence; hence firms would be induced to expand demand for the various factors such as labour whose prices would themselves be bid up. This theory argues that inflation would be caused by an excess demand for goods and services, which would in turn, lead to rising wages.

In other words, aggregate demand equals aggregate supply.

The wage cost push theory. The proponents of this theory stages the inflation would be caused by increases in factor payment especially in the process of labour. Any increase in wages would cause firm to raise in the process of final goods and services in an attempt to protect their policies via these would occur irrespective of whether or not excess demand for goods and services is in existence at the time, although the extent to which firms would be able to pass on wage increases at the time, although the extent to which firms would be able to pass on wage increases to the consumer is partly determined by market conditions. The argues that inflation begins which is wages or payments made to factors of production (which lead to a rise in the process of final goods and services). This is possible because of the ability of organised labour to press for more wages even in unfavourable circumstances in this theory, labour unions demand for increase in wages when there is no excess demand for labour. When such increased wages are achieved producers pass the increased wage costs on the consumer through higher prices of goods and services.

The price theory. This theory is similar to the wage cost push theory. The theory predicts the same sequence of events as the cost push theory, with firms rather than unions as the main causative agents. The theory maintain that sellers have monopoly power and would like to raise prices, but are prevented from doing so by their fear of anti-monopoly laws, adverse public opinion or regulatory review of their prices. Under these circumstances, cost increases could provide the necessary excuse for price increases. During wage negotiations, sellers grant wage increases and then use such as an excuse to raise

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prices by more than is required to offset the rise in wage costs.

Structural rigidity theory. The structural rigidity theory of inflation assumes that resources do not move quickly from one to another and that it's easy to increase wages and prices, but difficult to decrease them. Given these conditions, when patterns of demand and costs change, real adjustments occasionally vary slowly. Shortage of goods appear in potentially expanding sectors and prices rise because the slow movement of resources prevents those sectors from expanding rapidly enough. Contracting sectors keeps factors of production on part time employment or even in full employment, because mobility is low in the economy because their prices are rigid, there is deflation in these potentially contracting sectors. Thus, the mere process of adjustment in an economy with structural rigidities causes inflation to occur. Prices in the expanding sectors rise and prices in the contracting sectors remain the same. On the average therefore, prices rise.

Expectation theory. The expectation theory of inflation depends on a general set of expansion of price and wages increases. Suppose, for example, that both unions and firms expect that a 10% inflation will occur next year. Unions will tend to start negotiations from a base of 10% increase in money wages. They will argue that firms will be able to meet the extra 10% on the wage bill out of the extra revenues that will arise because products price will up by 10% starting from this base, unions will then negotiate over how much of an increase in real wages they can obtain. Firm will also be inclined to begin bargaining by conceding at least a 10% increase in money wages since they expect that the price at which they sell their own products will rise by 10%.

The danger of expectation over inflation is that it may cause a demand pull or any other kind of inflation that has gone on for several years to persist long after its original cause have been removed. It's unlikely that expectation inflation will break out by itself because expectation of continuing inflation do not arise just like that. What is likely, however, is that expectation inflation may take over from a demand pull inflation after the excess demand is removed or eliminated. If, for example, the government has been generating a demand pull inflation of 15% per year for 2 or 3 years as a result of too much spending and creating new money to finance its budget deficit, firms and unions expect this rate to continue suppose the government eliminates its

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budget deficit and stabilise the money supply by the expectations of 15% inflation persist. Wage and price increase of at least 15% will occur in the expectation of continuing inflation. At this point demand and pull inflation becomes expectation inflation.

EFFECTS OF INFLATION

The effect of inflation is of dual appearance in the sense that it has a dual effect on any economy in which it exists. For example, a general rise in the prices of all goods and services represents an incentive for the producers to produce and sell at higher prices, which may encourage further investment. On the other hand, with inflation in the economy, there would definitely be a fall in the standard of living of the people by way of reducing their purchasing power. This would create more serious hardship for the masses and the economy in general.

In general terms inflationary tendencies always go with a number of advantages and disadvantages and studies have shown that in any direction, always the negative tendencies do outweigh the positive ones. So, it can be concluded that inflation is more negative than positive.

CONTROL OF INFLATION

Inflation can be controlled according to its type. A demand pull Inflation can be eliminated in an economy through the use of appropriate fiscal and monetary policy measures. Since inflation is caused by the existence of excess demand, by a fiscal policy, government can reduce its expenditure or increase taxes so as to eliminate the inflationary gap that exists in the economy , that is why Prof. Baba Gana Umara Zulum introduce payment of a Tax in the state government. That means, an inflationary gap can be removed by an appropriate decrease in expenditure or increase in tax rates.

Through the use of monetary policy, inflation can also be removed. By using a monetary adjustment mechanism, we can lower aggregate expenditure and remove the inflation gap that causes prices to rise. The monetarists maintain that monetary constraint is necessary to stop any existing inflation. The central bank must then hold the nominal money supply constant. Therefore, money supply control is necessary and sufficient to control inflation.

Other theorist has argued that if inflation is wage cost push, attempts to control it by controlling the

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money supply will lead to levels and duration of unemployment that are politically quite unacceptable.

If on the other hand inflation is cost push some ways must be found of controlling wages. Legal constraints of wages control can be used, or income policies that persuade labour to reduce their wage demands can be induced. In other words, government can freeze wages so as to stop further wage increase. Price push, expectation and structural rigidity types of inflation can also be controlled in a similar way as the wage cost push inflation. Other possible measures that can be taken here include price control. By this measure, the government can fix a price ceiling, that is the highest price which all prices of factors of production should not pass, particularly wages. A ceiling can also be put on the prices of commodities.

Another measure to be taken is foreign exchange control. This will stabilise the price of imported products. But when the exchange rate is allowed to be flexible it will continue to change over time, which will affect the price of imported raw materials.

Tariffs can be reduced so as to reduce inflation in an economy. Higher tariffs increase the prices of imported consumer goods and producer goods. This measures can also reduce imported inflation. Lastly, productivity should be increased in the economy. This is because higher output is always associated with lower prices.

If, however, inflation is imported, the country should stop buying from countries experiencing inflation. It will have to look for other trading partners whose domestic price levels are stable. Tariffs can also be reduced on imports.

Real GDP Growth Rate (%) Inflation

Inflation rate during the review period averaged 11.13 per cent, rising from a single-digit of 6.6 per cent in 1999 to about 18.9 per cent in 2001, before declining to 6.6 per cent in 2007. The figure again jumped to about 15.1 per cent in 2008 and then declined further to12.0 per cent in 2009. The rise in inflation in 2001 was attributed to increases in the domestic pump-price of petroleum products, while that of 2003 was sequel to rise in aggregate demand occasioned by the tempo of political activities during the 2003 election. Inflationary pressure eased significantly in the years from 2004 except in 2008 and 2009

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which were attributed to the effects of the global financial crisis that led to naira depreciation and general credit crunch creating some cost-push factors. Clement weather, appreciation and relative stability of the naira coupled with robust macroeconomic policies all contributed to the general downward trend in.

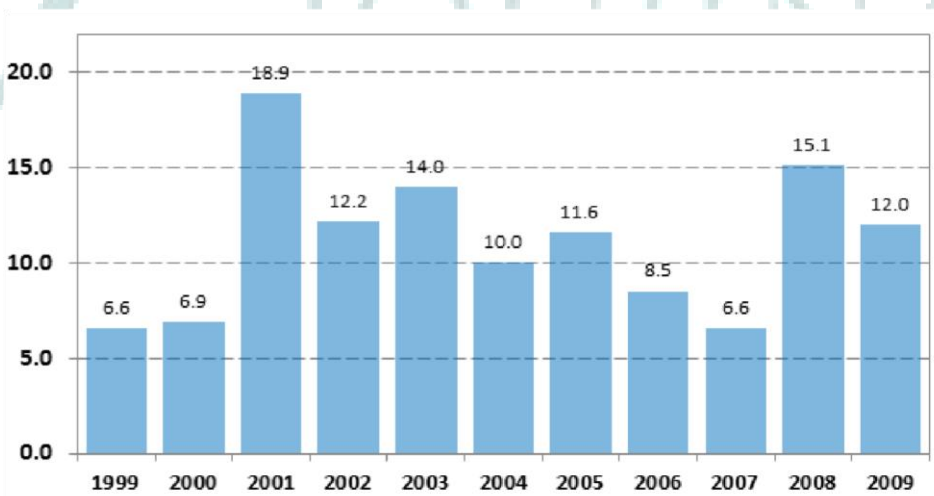
Inflation Rate (%)

Overall Fiscal Balance

Nigeria has a history of high fiscal and overall deficits. However, since 1999, fiscal deficit has consistently declined. Between 1999 and 2000, deficit went down from about 9 per cent of GDP to 2.3 per cent of GDP. The figure, however, went up to 4.68 per cent and 4.4 per cent in 2001 and 2002, respectively. Thereafter, the figure continued its downward trend till it reached 0.2 per cent of GDP in 2008.

Again the global financial crisis forced the deficit up again in 2009 when the

Figure 2.11\Chart Inflation Rate (%)



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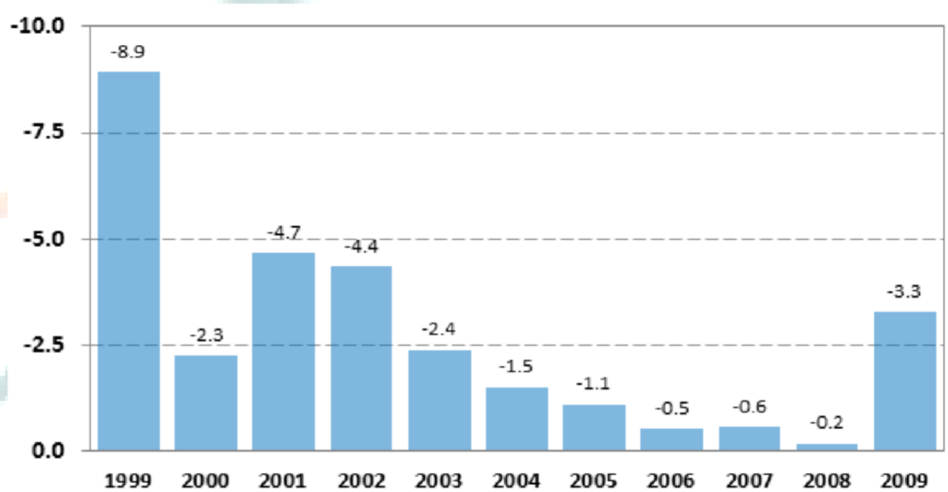
overall deficit of 3.3 per cent of GDP was recorded. Generally, the lower deficit reflected the twin factors of enhanced revenue from the oil sector and the effect of the non-release of some capital votes during the year, due to the late approval of the Appropriation Bills. The low deficit ratio observed in 2008 was largely attributed to the strict observance of fiscal rule on oil benchmark which led to the accumulation of huge savings. This compared favorably with the WAMZ convergence criterion target of 4.0 per cent of GDP.

Figure 2.12

Chart Overall Fiscal Balance (% GDP)



FISCAL POLICY AS A CONCEPT

Fiscal policy simply means the use of taxation, public expenditure and budget by the government to stabilise the economy with a view to achieving some macroeconomic objectives. Fiscal policy especially in a developing economy, is very important and indispensable. This is because in an underdeveloped economy where monetary policy alone is ineffective due to the existence of weak and underdeveloped money and capital markets, fiscal policy is an effective remedy in facilitating capital formation and economic growth in order to:

Attain full employment Maintain stability in the price level.

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Promote economic growth achieve favourable balance of payments.

CONCLUSION

Based on the findings of this study the following conclusion have derived:-

1. The important of this research is to find the possible ways control the creeping inflation situation by of a country by using fiscal policy.
2. Fiscal policy is one of the tools use to control the volume of the currency circulating in the country. Nigeria in order to achieve it goals and objectives properly with view of creating more jobs opportunities and attract foreign investors.
3. Lack of proper utilization of Nigeria Economic, will bring set back to Nigeria Economy, if care are not taken.
4. Special Economic Zones are the tools use by a country to expand their GDP, Gross Domestic Products playing a vital role in Nigeria Economic today.

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