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Hyperinflation in Developing Countries

Hyperinflation is the direct result of the rapidly deteriorating value of the local currency due to several factors of regulation and prices of commodities escalating due to economic conditions in the national economy. In the developing countries, there are some political and economic factors that have been responsible for hyperinflation. In an ideal hyperinflation, the people prefer to hold their property in the form of tangible assets other than monetary value due to the fact that currency becomes valueless (Tuach & Kuckulenz 112). Others prefer to hold cash in the form of a relatively stable foreign currency rather than the local currency. The demand and supply characteristics of the currency begin to exacerbate, and the value of paper notes begins to fall. In such a situation, excessive printing of paper notes is another cause of the inflationary push.

In developing countries, there are often weak governance structures and political changes are marked with intense financial and economic distortion. If a country lacks a stable central bank to look into the regulation of the flow of money in circulation, excessive printing of paper currency might naturally lead to hyperinflation (Lin & Haichun 120). The independent banks in such a situation would be helpless in regulating the flow of money. In Hungary for instance, the situation of hyperinflation was so intense that the local currency lost its value rapidly with devastating consequences.

According to the neo-liberal theory, hyperinflation occurs as a result of the loss of confidence in the country's social and economic variables of working stable economies. For example, in Argentina, the excessive borrowing from the developed nations made the

economy largely vulnerable when foreigners owned most of the strategic national resources against the national priorities and fundamental social welfare variables (Chauvet & Collier 520). According to Cagan's theory, hyperinflation occurs when there is insufficient convertibility of the value of notes to gold reserves. However, in the present situation where many countries do not necessarily express their national wealth in terms of gold reserves, hyperinflation might take diverse forms but are characterised as a rapid loss of the value of the national currency.

Most models of hyperinflation take a central concernment with the demand for money. Other models look at hyperinflation in the form of other variables like confidence in the national power. In this model, if a nation loses a war, its financial strength will diminish, and hyperinflation results on the basis of low confidence in the nation. The French hyperinflation of 1789-1796 was explainable in terms of the printed notes 'the assignments' that were removed by Emperor Bonaparte. In the case of the Weimar Republic around the time of the end of the Second World War, the inflation was so severe that the reserve banks were printing trillion value notes (Nanavati, Narayan & Mishra 921). In Hungary, the situation was adverse during the 1950s as a consequence of the Second World War. Many developing nations in Africa and the Caribbean also experience intense hyperinflationary episodes. In Somalia for instance, there is intense hyperinflation as a result of the international sanctions the country is facing as a result of piracy in the seas and lawlessness that has made the country isolated and less integrated with the financial world.

Works Cited

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