

INFLATION

As the year changes in the calendar, prices of goods and services also increases. Before a candy is worth 25 centavos but, now it's more than a peso and after several years we don't know already how much would be the price of it. Some goods didn't change their price, there are still vendors selling pandesal for only P 1.00. The price didn't increase but the size of the pandesal keeps getting smaller.



You are aware that this is happening, you know that as the year goes on, the value of a currency will continue to depreciate. This happens because of Inflation. Inflation reduces a person's purchasing power. During the 1990's or early 2000's when you go to a grocery with the P500.00 you move out with two heavy plastic bags on your both hands. But now, if you go to the grocery with the same amount, P500.00 will only give you a light plastic bag on one of your hands.

The Causes of Inflation

Have you been tried to ask what's the cause of inflation?

There are a lot of possible cause of inflation and here are some of it.

Cost Push Effect

In a business when the price of raw materials increases, the capital also needs to be increased. When a business capital was increased, it also means that profits must be increased. The same with the price of the final products. If this won't happen business companies will lose profits. Causing them to fire their employees because they can't already afford to pay their salaries. If business collapse, the same thing will happen to the economy.

The Money Supply

The lesser the amount of money circulating in an economy the higher it's valued. However, when the government decides to print more money at first this will increase the purchasing power of consumers because they have the capability to buy more goods and services. As an effect, because all most all of the goods were sold at one time, the demand for goods increases. Resulting in the prices of good to increase also.

Demand-Pull Effect

When the salary of employees increases, automatically their purchasing power will increase. Some will repair their houses, buy luxuries, appliances, travel etc. However, this won't happen because business companies will increase the prices of their goods and services to balance the supply and demand.

Exchange Rate

Before the basis of a country's currency is gold. But, now it's different, it's the US dollar. If the exchange rate of the peso to US dollar is high, this denotes that goods and services from the US will be more expensive causing people to have low purchasing power. But when the exchange rate of the peso to US dollar decreases the purchasing power of peso for US goods and services will increase.

National Debt

The higher the debt of a country the higher the chance that there will be a higher inflation. Governments have only two options in paying their debt. Either they increase the taxes or they will print more money.

If they will increase their taxes, the business corporations will surely increase also the price of their good to suffice the payment for their taxes. When prices of the goods increase consumers will knock the doors of the government to have a salary increase. Obviously, this will be another problem. So, the government will choose to print more money.

Inflation will always be there and this is the worst enemy of your investments. But, there are ways to combat it and one way is opting not to place your money in a time deposit.

SAFE NGA BA ANG PERA SA BANGKO?

SAVINGS:	100,000
ADD: INTEREST @ 1%	+ 1,000
LESS: TAX @ 20%	- 200
NET AFTER TAX	<u>100,800</u>
LESS INFLATION @ 4%	- 4000
ACTUAL RETURN AFTER TAX & INFLATION	<u>96,800</u>

YOU LOSE!

Imagine kung magtu-tuloy tuloy ito for 10 years?
Nakikita mo ba kung gaano magiging kababa ang value ng pera mo?

Note: The 96,800 pesos represents only the value of your total savings and not the actual amount!

 Course On Cash