

Inflation and International Business

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Introduction

The level and the grip on idea of international business fails and all the concept and theories decline when the factor of inflation is added to the policies regarding the international trade. This happen due the fluctuations in the price levels and the even distribution of the income in the countries and across the boundaries as inflation is termed as the general rise or fall in the value of the money.

Discussion

The two main theories that are regarded as the basic school of thought in the international market are known as the quality theories of inflation and quantity theories of inflation. Therefore the quality theory of inflation is dependent on the production and similarly the quantity theory relies on the idea of the money supply, its velocity, and the nominal value of exchanges (Levinson, 1971). There have been many reasons discussed in the past that are responsible for the inflation in the international market. This has specifically affected the international business. The main and the primary reasons for the inflation are determined as the Demand-pull, Cost-push and Monetarist view (Cavusgil, et.al, 2012). The demand pull is observed when the buyers have the capability to buy the more production and the seller start to increase the prices of the goods in the market. This happens when there is a constant rise in the costs of the products. It can happen when there start a rise in the wages or the raw materials. Monetarist view happens when there is huge rise in the production of the currency and it has been allowed by the government and it is thus spread in the international market.

There are many effects that can be observed in the international market due to the factor inflation. There is a distortion observed in relative prices of the good that will give rise to many factors like the risk factors more uncertainty that is related to the production and the management of the products in the international business. There will be a distortion in the fixed income level that will disturb the monetary factors and the values of the business and its associated institutions in an organization or the enterprise (Darby, et.al, 1983). This will also result in the increase in tax brackets. This inflation also gives rise to the business cycles that will run many organizations out of the business due to the huge losses in the quality and the quantity.

The most important that is encountered while considering the inflation in the international business is the Currency debasement. This has been a cause to which lowers the value of a currency and sometime give the reason for the birth of the new currency in the market. Further the country has to suffer on the whole as people have to face the trouble of the higher prices of the on the imported goods.

Conclusion

Thus, to avoid the inflation in the international market there are many factors that has to be observed and complied with the business. So that it holds more fruitful consequences when there is inflation. Further there should be strategies that should be developed regarding the consequences and the situation in the market. Further the process of the decision making is very important when the enterprise or nay international business or the market has to combat with the competitors in the international market.

References

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