SECTION 8. MONEY, FINANCES AND CREDIT

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THE IMPACT OF INFLATION PROCESSES ON THE CHANGES IN MONEY SUPPLY

The concept of "inflation" acts as a process of growth in the general price level in the country due to violation of the monetary circulation law. The most common cause of inflation – customer demand exceeds product supply.

With relatively stable volume and structure of production and the constant velocity of money is the main factor of price changes is the change in the money supply. The money supply can grow. If the purchasing power of money falls, the violations occur due to the fact that the owners of the money tend to be quick to get rid of the "falling" currencies. The speed of money circulation increases. Thrown on the market in excess amount of money encourage (stimulate) the inflationary price increase.

The most common method of measuring inflation is the consumer price index (CPI), which is calculated for the current period compared to the base period.

Inflation affects the performance of the project in cash and in natural payments. Possible change of the project implementation plan (planned quantities of reserves and debt, deleveraging, output and sales). Therefore, it is undeniable that the transition to payments in hard currency or even to natural factors does not negate the need of inflation.

Inflation processes affect the change in the money supply directly affects the intensity of money circulation, the formation of effective demand on the markets, and hence on the economic development of the country.

Among the components of inflation distinguished so-called inflation of demand and inflation of supply. The inflation of demand is usually associated with "excess" of money in the economy that can occur when excessive increase in wages or aggregate demand.

Inflation of supply occurs due to rising prices of factors of production and, consequently, production, the consequence may be a reduction in aggregate supply with further price increases.

Therefore, after investigated trends in money supply, inflation rates, we can conclude, that in some way, speaking about the indicators and the types of information, we have already touched upon the question of the effects of inflation, its impact on the economy. Modern inflation is associated not only with a decline in the purchasing power of money as a result of rising prices, but also with the General poor condition of the economic development of the country.

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