



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF INFLATION IN
VENEZUELA**

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ABSTRACT

Inflation is one of the famous macroeconomic problems that always got attention globally. Generally, inflation refers to the continue increasing in general price of goods and services in a certain period of time that can cause the declining in purchasing power of consumer. In fact, the world has recorded that the Republic of Venezuela has the highest inflation rate ever. Moreover, the economists state that the Venezuela's inflation not only reached normal inflation rate, but had turned into a hyperinflation level. Since the arising of this issue, the study intends to make a further investigate on determinants that affecting the inflation in Venezuela country. This research analyze the inflation rate as the dependent variable, meanwhile the independent variables are the crude oil price, unemployment rate, money supply, exchange rate, gross domestic product (GDP), and government expenditure. Quantitative method and the econometric model are chosen to examine the relationship between the dependent and independent variables. With the 37 years observation of sample size from year 1978 to year 2014, the data had run by using the Ordinary Least Square (OLS) method. All of this time series data are collected from the World Bank Data website. It founds that there are two relationships exist which are the positive and negative relationship of independent variables towards the inflation rate. Based on result, money supply and government expenditure show the positive relationship meanwhile for crude oil price, unemployment rate, exchange rate and gross domestic product show then opposite relationship towards the inflation rate.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter will focus on the introductory and the overview of research study that begins from general information to specific information. This paper will mainly study and cover the factors that affecting the inflation in Republic of Venezuela. Due to this study, the problem or issue that regarding to this topic will be determined and discussed briefly in the problem statement. Moreover, this chapter also will discuss on research question followed by research objective, scope and its significance of this study. Not being left behind, the limitation and definition of each term used relatable to the study will be deeply explain in this chapter.

1.2 Research Background

Inflation as a topic of study has received large scale of attention globally includes from organization, academic and literature policy over many years. This macroeconomic problem normally becomes a major concern for the government, companies, employees and investors. This is because this monetary policy issue can bring large impact toward the economic performances of a country. In define, the inflation is refer to the continues increasing in general price of goods and services in a certain period of time (Labonte, 2011). In theoretically, when there is increasing in price level, it will reduced the units of currency for goods and services that transacts in the market. In easy way to understand, the higher the price increases in products and services, the lower the power of value in money.

Nowadays, the world has known that the Republic of Venezuela has become the highest inflation recorded ever. It more worrisome when currently the Venezuelans had not only reached the normal inflation, but had turned into hyperinflation. The