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# Insights



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## RECTOR'S MESSAGE



Congratulations Faculty of Business and Management of Universiti Teknologi MARA Cawangan Kedah, Kampus Sungai Petani on the publication of the 6<sup>th</sup> Volume of FBM Insights!

I am very pleased to know that there are more than 40 authors and more emerging issues are being presented in this latest volume of FBM Insights. This portrays that UiTM Kedah Branch is actively involved in disseminating business related information and knowledge to the public.

I hope this bulletin can provide an opportunity for the Faculty of Business and Management staff to produce more academic materials and develop their skills in academic and creative writing. Furthermore, more initiatives should be launched to support this life-long process.

Again, well done to the Faculty of Business and Management and those who were involved directly and indirectly with the publishing of FBM Insights Vol.6. I wish FBM Insights all the best and continue to grow and move rapidly forward in the future.

**Prof. Dr. Roshima Haji Said**  
Rector  
Universiti Teknologi MARA (UiTM)  
Cawangan Kedah



السلام عليكم ورحمة الله وبركاته

Assalamualaikum warahmatullahi wabarakatuh

Welcome to the 6<sup>th</sup> Edition of FBM Insights 2022. This edition boasts 40 articles by the academics of Faculty of Business and Management UiTM Kedah Campus. The topics involved a broad range of business and management knowledge. Congratulations to all authors for your endless support and valuable contribution to the newsletter.

FBM Insights was mooted in 2020 and it came about with the intention to encourage and improve research writing activities among the lecturers of UiTM Kedah's Business and Management Faculty. As the editions progressed, the support from the academics has not faltered. I hope the support continues in editions to come.

I would like to congratulate the editors and the committee for the hard work and perseverance in managing the newsletter. All the best to everyone and thank you again.

**Dr. Yanti Aspha Ameira Mustapha**  
FBM Insights Advisor

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# **THE EFFECT OF INFLATION ON ECONOMIC GROWTH THROUGH INNOVATION**

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## **INTRODUCTION**

Inflation is a term used in economics to indicate the increase in the price of products and services over a given time period, usually a year. One of the effects of inflation is the long periods of uncertainty faced by a country. This global macroeconomic problem, in particular, affects the entire world. The common contributors or causes to inflation are: 1) demand-pull inflation, which is caused by an increase in aggregate demand, and 2) cost-push inflation, which is influenced by a rise in production costs. Other than that, the crisis among countries also could affect world inflation, for example, Russia's invasion of Ukraine causes rising energy and food prices, in addition to the disruption of agricultural imports and fuel flows which have resulted in the rise in global inflation. In economics, discussions on inflation and economic growth are highly essential as inflation is one of the determinants of economic growth. Thus, this article expands the discussion effect of inflation on economic growth through innovation.

## **EFFECTS OF INFLATION**

In general, during an inflationary period, a household's purchasing power will be affected because of the need to pay higher prices. The higher the price, the lower the saving and investments can be made by households. Consumers with a fixed income, such as pensioners, are highly affected by higher inflation as inflation complicates their household economic planning. This, along with low purchasing power, contributes to a decline in the standard of living, a reduction in savings and investments, a rise in poverty and crime rates, as well as influences the macroeconomics policy decisions (Nabila et al., 2022).

On the other hand, inflation benefits some groups of people including businessmen who earn higher profits from rising prices, real estate owners due to property prices increase, and debtors because the real value of money has changed.

## **INFLATION AND ECONOMIC GROWTH**

Economic theory and research frequently discuss the negative consequences of inflation on economic growth, whether through expectations, investment cost, the difficulty of projecting future relative prices, political aspects, and macroeconomic policy (Dressler, 2016; Mandeya & Ho, 2021). The classical study by Tobin (1965) states that the relationship between economic growth and inflation has been a fundamental question in economics. Economic growth may be affected by a decline in investments, as higher inflation reduces both investment and economic growth.

In addition, the technological advancement of a country influences the country's economic conditions and its ability to compete internationally. For example, even though the COVID-19

pandemic is causing global inflation, the pandemic has led to technological advancements in many fields including education, business, and advertising, which contribute to a country's economic growth. This agrees with Solow's study (1956) that technological advancements drive long-term economic growth.

## **INFLATION, INNOVATION, AND ECONOMIC GROWTH**

According to the Organisation for Economic Co-operation and Development (OECD), innovation is a new or improved product or process (or a combination thereof) resulting in the product or process made available to potential users differing from its original form. There are different types of innovation, namely organizational innovation, process innovation, product innovation, and marketing innovation. Innovation requires economic investments to enable research and development. However, investment in research and development is limited during periods of inflation due to higher costs. This situation discourages innovation activities, slowing technological progress and reducing economic growth (Rocha et al., 2021). Thus, the higher the inflation contributes the lower the innovation and leads to a decrease in economic growth.

## **CONCLUSION**

Higher inflation has a negative impact on the economy because inflation causes price drops or deflation. As consumers postpone purchases until prices fall, there are fewer economic activities. This will result in slower economic growth (Ekinci et al., 2020; Nishioka, 2022) and lower producer income. Therefore, many economists believe that low, stable, and, most importantly, predictable inflation is beneficial to an economy (Oner, 2022).

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