



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF INFLATION IN UPPER-
MIDDLE INCOME COUNTRIES**

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ABSTRACT

This research paper focus on the analysis of the main determinants that may have an impact on inflation. Precisely, this study aims to determine the main determinants of inflation in upper-middle income countries by analyzing the relationship of GDP growth, exchange rate growth, real interest rate and money and quasi money growth with the inflation. This study using a sample of 15 upper-middle income countries over the 1998 to 2007 period. All the data that have been collected from World Bank and Econ Stats will be regressed by using E-views 10. These findings suggest that GDP growth, exchange rate growth and real interest rate gives significant negative signs meanwhile money and quasi money growth gives significant positive signs towards the inflation rate in upper-middle income countries.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Macroeconomic is the study of government policy. It is meant to control and stabilize the economy over time in order to reduce any fluctuations in the economy. One of the macroeconomic variable that has to be control is inflation.

Inflation is a situation where there is a continuous rise in the general price level in the economy. According to The World Bank, inflation as measured by the consumer price index (CPI) reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, as example yearly. In a simple ways, inflation can be seen as the increment in the cost of living as the price of goods and services increase.

Inflation rate or also known as the management of the annual price level changes within a country is one of the most crucial macroeconomic variables for all policy makers. This is due to all policy making measures, need the exact foresight about the previous, current and future changes in inflation level.

From the economic perspective, they key determinants of inflation can be categorized to supply side and demand side factors. In supply side category, the most crucial economic factors are output growth, capital formation, oil and import prices, tax and wage levels, and exchange rate that can cause inflation by increasing the cost of the production.

Meanwhile, for demand side, the important factors are money growth, private consumption expenditure and government consumption expenditure. These factors can lead to high inflation by creating more purchasing requests for goods and services in one's country.