

Summary of the Reasons for China's Inflation Occurred Graduate Students at Bangkok University

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Abstract

For a long time, both the governments and economists are concerned with the problem of inflation, because as an important macroeconomic indicators, inflation is inextricably linked with macroeconomic operation. It is an "indicator" reflecting the market economy, it is also a "regulator" allocating the economic resources of the market. Figure 1 plots official statistics for Chinese GDP growth, urban consumption growth and inflation. Price stability has been the one of the pursuit objectives of national macroeconomic policy. In recent years, China's various types of price index showed rising, as the level of prices not only involves the livelihood of the residents, the production of enterprises, but also the direction of the macro-control policies, thus prices again become the focus of attention.

After using other scholars' study for reference, the text studies the leading factors inducing the current inflation and their impact by using stationary text, cointegrating regression, error correction model, impulse response function. According to the study, we can find that there is a strict relation which is reflected in exchange equation among foreign exchange, broad money supply, exchange rate, total retail sales of social consumer goods and investment in fixed assets. It's indicated that the increase of foreign exchange, total retail sales of social consumer goods and investment in fixed assets would pick up the inflation while the increase of exchange rate can reduce the inflation.

Keywords: Inflation, Macroeconomic, Indicators

1. Introduction

Inflation is a common worldwide, complex, comprehensive macroeconomic phenomenon, its definition in economics also did not achieve consensus, now the most popular definition is: Inflation is a process of rising prices, or is a process of continued depreciation of the currency value. Typically, the occurrence or absence of inflation and the size is a change to measure the magnitude of the price index, the international community generally uses the consumer price index (growth rate of CPD to observe whether a particular country or region of

inflation). Generally believed that inflation occurs flooding caused by the currency, and the emergence or worsening of inflation will not only lead to serious distortions of the market price, but also lead to a severe depreciation of the national currency, and thus undermine the operation of the laws of the market, the inflation in the economy considerable harm(see Figure 17). Only maintain a stable price level of goods and services in order to ensure price inflation without interference, the market price mechanism in order to run smoothly, thereby improving the efficiency of resource allocation in the economy, so the world will be inflation as a macroeconomic policy important goal. From a global perspective, inflation in different countries and different periods vary widely. For example, in Germany and Japan in the past few decades, the price level rose by an average annual level of the index is only a few percentage points, while in Italy and the UK, the price level rose by an annual average of more than 10 percent margin. The US annual inflation rate during the same period increased by slow and irregular, from about 1% of the late 1950s to late 1970s, nearly 10 percent; and then quickly dropped to below 5%, and since then has remained at 2% to 5%.

China since the 1978 reform and opening up, economic development has entered a sustained 30 years of rapid growth, economic development has made achievements that attracted worldwide attention. However, inflation in China in the process of economic reform and economic development has encountered significant challenges and the future there may be encountered. As China's economic development in the primary stage of socialism, the conversion period of economic system reform, changes in many factors are intertwined, so that there is China's inflation characteristics of multiple factors simultaneously. In several economic cycles, both serious inflation occurred, have also been mild deflation. Especially in 1984 and 1989 reached more than the average annual inflation rate of 10%, the first half of 1991 and 1993, the Chinese government adopted a policy to conform to and promote economic recovery and expansion, leading to investment and consumption demand sharp expansion, much higher than the possible social supply, resulting in the total economy imbalances lead to inflation. After the Asian financial crisis in 1997, lack of effective demand as the main factor restricting China's sustained economic growth during 1998 to 2001, it is an unprecedented phenomenon of deflation. However, beginning in the second half of 2002, China's economy began to emerge from the trough for five years, and launched a new round of growth. Since 2003, the national economy has shown a good momentum of high growth and low inflation. After entering the first quarter of 2004, China all kinds of price index showed a rising trend, inflationary pressures increasingly apparent. 2005 CPI to fall again. But in 2007, a major change in this situation, CPI index began rising momentum. 2007 China's CPI rose 4.8 percent, greatly exceeded the target of 3% or less rose early to determine, but also much higher than the 1.5% increase in 2006, the

highest annual increase since 1997 the CPI. To February 2008 China's monthly CPI data has reached a record 8.5%. Of course, since 2007, this round of price increases, both the total amount of reasons, there are structural reasons; both factors in mainland China, but also international factors and influences; both internal demand-pull factors, but also the internal cost-push influence, coupled with market expectations, the wealth effect, etc., because the complex is a result of the combined effects.

Chinese academics to cause inflation in-depth study of views. Some scholars believe that inflation is due to an excessive increase in the money supply caused; and some scholars believe that inflation and investment in fixed assets related; Some scholars believe that inflation is an essentially imported inflation. This article is to conduct research in such a context.

2. Purpose of the Study

This paper mainly discuss the theory, a number of qualitative analysis and quantitative analysis to study the main factors affecting China's inflation problem. The basic idea is to use the theory of inflation incentives to induce China to analyze and find the reality of the inflation factor resulting problems. Trying to achieve the following three purposes: First, qualitative analysis of ways to find the main cause of inflation in China, and then analyze the conduction mechanisms of these factors; the second is the use of the measurement method to verify whether these factors such as the impact on inflation of qualitative analysis and to get the full impact of the conclusion; the third is put forward relevant policy recommendations.

This article will be a number of factors that affect inflation more in-depth analysis. With the unit root test, Johansen test model, Granger causality test and impulse response function (Impulse Response Function) and other methods of economic variables associated with inflation systematically analyze the factors affecting the adoption of inflation comparison chart were described methods discussions, and strive to make the entire analysis and detailed and clear.

3. Research Findings

Based on the above ideas, this article will be divided into four main parts of the main factors affecting inflation in China were analyzed. The first part is the theoretical analysis of the article, which is the theoretical starting point of this study is mainly a combination of semi-Keynesian currency. Expansion theory, inflation and the theory of the new Cambridge school, monetarist theory of inflation and the Swedish School of analysis. Inflation theoretically get some of the factors affecting. Based on the above four second part summarizes the theory of inflation. Incentives, and these factors fall into four categories, namely, changes in demand factors, cost-push, push enter and currency driven. Then derive the various factors are linked through what

channels and inflation. The third part of econometric. Methods for these incentives and inflation relationship empirical research. The last part of the theoretical and empirical analysis based on the knot. On the proposed mitigation of inflationary pressures policy recommendations in four areas.

4. Conclusions and Recommendations

Through empirical research front, we can get a lot of important conclusions are summarized as follows:

(1) the existence of "spiral" effect in the short term inflation. This conclusion can be seen from the pulse curves in the current period have a positive impact on the price level of impact on the future price level 4 period, but the degree of influence is constantly smaller. This verifies the "spiral" exists "price spiral" or inflation. Therefore, the existence of such a spiral of inflation is bound to affect the effectiveness of monetary policy, so a big problem when the monetary authorities in setting monetary policy must be considered.

(2) the existence of a long-term equilibrium relationship between China's foreign exchange reserves and the CPI. Changes in foreign reserves and the price level changes in a positive correlation, but the influence is weak. Because the central bank can reduce the impact of foreign exchange intervention on the money supply through monetary base and the money multiplier. Central banks to adjust monetary base structure is put in the base currency of the business by adjusting its assets in foreign exchange reserves increased, the central bank by reducing the financial institutions, governments and non-financial institutions, credit growth to offset the foreign exchange reserves put pressure on the currency, by issuance of central bank bills and other ways to return the money. Can also affect the money multiplier affect the money supply, such as the central bank can influence the money supply and thus affect the money multiplier by adjusting the statutory reserve. China has not been achieved due to the interest rate market in the full sense, is not yet fully open capital account, and therefore the transmission mechanism between the interest rate and capital account is blocked, which to some extent also reduced the impact of foreign exchange reserves increased inflation. However, the impact of foreign exchange reserves on the CPI can not be ignored. This is because since 2007 China's foreign exchange reserves volatility, more and more, to the growth rate in January 2008 reached \$ 30.218 billion. In the long run, the impact of foreign exchange reserves for the CPI less and less.

(3) In the long term, between the broad money supply growth and inflation are related to cointegration, there is a significant correlation between them, the impact of changes in the money supply resulting ultimately reflected in the price level . From equation (4.1) can also be seen in the selected variables affecting broad money supply growth rate of inflation is the

biggest, China data appears this empirical result is mainly due to rapid economic growth, the government printing too much money, loose credit policy bias. These are the direct cause of inflation.

(4) In the long run, the RMB exchange rate and China's inflation rate is negatively related, but the relationship is very small, that revaluation to ease inflationary pressures minor role. But really able to influence the exchange rate of inflation, which shows China's economy is increasingly disturbed fluctuations in the international economy, the exchange rate may have an impact on China's price level by changing the form of the cost of imports, and therefore control inflation, the government should to also concerned about the RMB exchange rate movements by adjusting the exchange rate to effectively curb inflation.

(5) In the long run, the growth of the total retail sales of social consumer goods in China will promote the growth of CPI. Despite the short-term period, total retail sales of social consumer goods through control can inhibit the growth of CPI, but time is short, not enough to make the fast-growing economies in the short term is completely down.

(6) by the fixed-asset investment price index Granger causality test data interval is shorter because although I did not enter the model analysis, but it is the induced index inflation in China. Price volatility of investment in fixed assets that have a certain impact on China-induced inflation, mainly because: China's economic growth is based on the extensive mode of propulsion of high investment in state of the art production capacity has full use , excessive investment demand can not increase the total supply, it can only result in the expansion of aggregate demand, pushing up the overall price level, so that the national economy is in an unstable state in the expansion.

(7) When we formulate policies to stabilize prices, suppression and ease inflation, should focus on the regulation of the money supply, taking into account the timeliness, but also concerned about the impact of the total retail sales of social consumer goods and short-term effects of foreign exchange reserves will combine the three macro-control in order to achieve better results.

By the previous conclusion, we have been able to clear a number of factors affecting the impact of inflation and the extent of these factors include: foreign exchange reserves, the broad money supply, exchange rate, total retail sales of consumer goods, the price of fixed assets investment. In the long-term impact of these factors on inflation is consistent with the relevant theory. However, the impact of these factors in the short term may not be consistent with the theory with. Thus, while China's monetary policy and fiscal policy on inflation in the long run have a positive effect, but in the short term, these policies are not obvious. Therefore, in order to curb inflation, on the one hand, the relevant departments of the Chinese government should

continue to adopt policies for specific reasons; on the other hand, must also be developed to adapt to short-term coping mechanisms mutation factors.

5. Reference

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