



[Academic Script]

Depression, Hyperinflation and Deficit

Subject:	Business Economics
Course:	B. A. (Hons.), 3 rd Semester, Undergraduate
Paper No. & Title:	Paper – 301 Microeconomics-I
Unit No. & Title:	Unit – 5 Economics of Great Events
Lecture No. & Title:	Lecture – 1 Depression, Hyperinflation and Deficit

Academic Script

1. Introduction

Depression is equal to economic collapse which talks about the bad economic conditions, ranging from a severe, prolonged depression with high bankruptcy rates and high unemployment. Due to hyperinflation or decline in population or increase in death rate there is breakdown in normal commerce. There are other causes of depression such as civil unrest, law and order breakdown and social chaos.

Example of Great Depression

1. U.S. Embargo Act of 1807

This Act forbade foreign trade with warring European Nations. The cause of depression was the heavily international trade – dependent economy.

2. China (1852 to 1870)

The Taiping Rebellion followed by Internal Warfare, Famines and Epidemics caused death of over hundred million and greatly reduced the economy.

3. Weimar Germany(German revolution of 1918 – 1919 and KappaPutsch).

The Germany's defeat in World War – I brought political instability resulted murders and assassinations of hundreds of political figures. They unable to raise enough taxes to run the government and to make war reparations, the government resorted to print money which resulted in great hyperinflation.

4. The Great Depression of 1930's

This was worldwide depression since the start of the industrial revolution. In US the depression began in summer 1929 and soon followed by the stock market crash of October 1929. The prices of share market decline till 1932. The banking system

broke down in the first quarter of 1933. During this the asset prices went down, bank lending has been ceased, a quarter of American work force was unemployed and the real G.D.P. per capita in 1933 was 29% which was below 1929 value.

5. Economic Collapsed of Soviet Communism

During 1980s the Eastern Bloc, which relied on a stagnant form of planned economy, experienced of decade long period of stagflation and eventual collapse from which it did not recovered, culminating with revolutions and fall of communist regimes.

6. Russian Financial Crises of 1998

The Russian Federation, in August 1998, was caused by low oil prices and government expenditure cuts after the end of the cold war. The other nation of Soviet Union also experience economic collapse and also number of crises involved armed conflicts. Default by Russia on its government bonds in 1998 led to the collapse of highly leveraged hedge fund long term capital management, which threatened the world financial system.

2. Hyperinflation

Hyperinflation is one type of inflation which is very dangerous. During this, the prices of the commodity get double or triple digit rates from 20 to 100% per annum or even more. The price rises every minute and there is no upper limit for the price rise in given time. According to Professor Keynes, this inflation is the true inflation.

This type of true inflation or hyperinflation occurs after reaches to full employment. According to the history, there are many examples of Galloping inflation but the most famous are two.

1) The first is the great inflation of Germany after the World War-I.

2) The great Chinese inflation after the World War – II.

Examples of Hyperinflation

Germany

There were two big inflation took place in Germany. Firstly in the January 1920 and peak inflation was 56.9% secondly it was on 1922 to December 1923 and the peak month was November in which the rate of inflation went for 29525%. This happened due to gold value of money in circulation fell down that means bank notes had lost so much value that they were used as wall paper.

Austria

In the year 1922 the hyperinflation reached by 1426%. This was started from 1914 and ended in January 1923. The consumer price index rose by factor of 11836 with highest bank note in be denominations of 5 Lack kronen. The peak year of inflation was 1922 and the rate of inflation was 129%.

China

China was the first to use the Fiat currency and had early history of troubles caused by hyperinflation. The huge Fiat paper money printed to fund their war by the Yuan dynasty and the result was hyperinflation. The worst inflation of China was in the year 1948 to 1949. China face hyperinflation two times, firstly the hyperinflation started July 1943 and ended August 1945. The peak month of inflation was June 1945 and rate of inflation was 302%. The second hyperinflation hit China during October 1947 and ended in the mid May 1949. The rate of inflation was 5070%.

France

Inflation started in the year 1795 in the month of May and ended up in the year 1796 November. The peak month was mid August 1796 during this the rate of inflation was 304%. This happened

due to national assembly issued bonds and some are blocked by Seized church property called 'Assignats'. During 1803 when Neapolitan replaced the franc that time there was no value for the 'Assignats'. These assignats became the counter fitting of the paper currency and near about 400 men produced false and forged assignates. This caused hyperinflation in the economy.

Hungary

The inflation of Hungary was also remarkable and was started in August 1945 and ended in July 1946. The peak month was July 1946 and during this peak the rate of inflation was 41.9 quadrillion percent. Treaty of Trianon and political instability between 1919 and 1924 led to a major inflation of Hungary currency.

North Korea

North Korea experiences the inflation during December 2009 to mid-January 2011. The cause of inflation was on the price of rice.

Philippines

The inflation hits the Philippines in the year 1944 January and ended up December 1944. The peak month was January 1944 with the rate of inflation 60%. This caused due to issuing of Fiat money during World War – II for general circulation. They have issued another at the same time like 'Guerrilla Money'. The Fiat money was dubbed 'Mickey Mouse money' because it was similar to play money and is next worthless. Later time, one duck egg is equal to 15 'Mickey Mouse money' because of over flow of currency and Japanese bill issued. This caused Hyperinflation.

Singapore

Japanese occupied Singapore from 15th February 1942 to 1945. During this time, the cost increased and Japanese issued 'Banana

money' because their main currency since straits currency became rare. To supply Japanese authorities they printed more notes and caused hyperinflation.

Yugoslavia

The inflation hits in September 1989 and ended up in December 1989. During this period in the month of December, the inflation rate went to 59.7%. The second inflation hit during April 1992 to January 1994 due to Bosnian War. During this tenure the rate of inflation was 313 Billion percent in January 1994.

Zimbabwe

In March 2007, the inflation has started and ended up in the year 2008. The peak month was November 2008 with 7.96 Billion Percent rate of inflation. This happened due to few instances that resulted in abandonment of local currency.

3. Deficit

The amount by which a resource falls short of a mark, most often used to describe a difference between cash [inflows and outflows](#). According to WTO, the deficits in Billion US Dollar by different countries are discussed.

1. USA got the 1st rank according to the deficit 2011, i.e., - 784.775 and deficit per capita 2011 is 2518.0
2. UK got the 2nd rank according to the deficit 2011, i.e., - 162.973.
3. India got the 3rd rank according to the deficit 2011, i.e., - 154.401.
4. France got the 4th rank according to the deficit 2011, i.e., - 117.676.
5. Turkey got the 5th rank according to the deficit 2011, i.e., - 105.862.

6. Spain got the 6th rank according to the deficit 2011, i.e., - 64.691.
7. Hong Kong got the 7th rank according to the deficit 2011, i.e., -55.630.
8. Italy got the 8th rank according to the deficit 2011, i.e., - 33.872.
9. Japan got the 9th rank according to the deficit 2011, i.e., - 31.593.
10. Egypt got the 10th rank according to the deficit 2011, i.e., - 28.375.
11. Greece got the 11th rank according to the deficit 2011, i.e., - 27.773.
12. South Africa got the 12th rank according to the deficit 2011, i.e., -24.684.
13. Morocco got the 13th rank according to the deficit 2011, i.e., - 22.950.
14. Portugal got the 14th rank according to the deficit 2011, i.e., - 21.226.
15. Poland got the 15th rank according to the deficit 2011, i.e., - 20.271.
16. Pakistan got the 16th rank according to the deficit 2011, i.e., -18.250.
17. Philippines got the 17th rank according to the deficit 2011, i.e., -15.968.
18. Lebanon got the 18th rank according to the deficit 2011, i.e., -15.086.
19. Ukraine got the 19th rank according to the deficit 2011, i.e., - 14.134.
20. Romania got the 20th rank according to the deficit 2011, i.e., -13.532.

21. Austria got the 21st rank according to the deficit 2011, i.e., -12.408.
22. Bangladesh got the 22nd rank according to the deficit 2011, i.e., -11.798.
23. Mexico got the 23rd rank according to the deficit 2011, i.e., -11.391.
24. Jordan got the 24th rank according to the deficit 2011, i.e., -10.338.
25. Canada got the 25th rank according to the deficit 2011, i.e., -10.268.
26. Vietnam got the 36th rank according to the deficit 2011, i.e., -9.844.
27. Sri Lanka got the 27th rank according to the deficit 2011, i.e., -9.700.
28. Israel got the 28th rank according to the deficit 2011, i.e., -9.470.
29. Kenya got the 29th rank according to the deficit 2011, i.e., -9.026.
30. Dominican Republic got the 30th rank according to the deficit 2011, i.e., -9.000.

4. Summary

In this topic we have discussed the meaning of Depression, Hyperinflation and Deficit as well as the Economics of Great Events-Depression, Hyperinflation and Deficit. This gives brief information about the different economies of the world that faced these situations.