Comparison in Inflation Rate

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|  | USA | UK |
| Inflation rate | 1.9% | 2.48% |
| percentage change of USA with respect to the UK | 1.00 USD = 0.783686 POUND  USD/GBP = 0.36703% |  |

Purchasing power parity PPP is the rate of the exchange rate that balances the purchasing power between the two nations by excluding the price level difference (“Finance & Development,” n.d.). The table indicates that the inflation rate of the USA is 1.9% while the inflation rate of UK is 2.48%. When there is no inflation or the same rate of inflation in two nations than the purchasing power is said to be 1 for 1 exchange rate. For instance, in such a case, USA citizens can buy UK commodity worth 1 pound for 1 dollar. However, when the inflation rate is different in both the nations than the purchasing power changes according to the inflation rate in both the nations. PPP explains that when a nation has high inflation its currency value also decrease with respect to the other nation. The explanation can be verified through the example of the US and UK where the UK currency value for one dollar is only 0.783686 pound because of the high inflation rate. It means to buy USA commodity worth one dollar, the citizens of the UK have to pay 1.36703 dollars. The reason behind the pattern is the change in currency value due to inflation. When inflation increases it indicates the excessive supply of the money in the economy. With the increase in money supply, individuals get more money to spend which leads to the low value of the money at the international level. Same happens in the case of the USA and UK where UK have more inflation than the USA which means the value of the UK pound is decreasing with respect to the USA dollar. Therefore, it can be concluded that the USA have stronger currency as compared to the UK currency due to the difference in the inflation rate. Low inflation rate in the USA leads to the high purchasing power and strong exchange rate than the UK (“Conversion rates - Purchasing power parities (PPP) - OECD Data,” n.d.).

**References**

Conversion rates - Purchasing power parities (PPP) - OECD Data. (n.d.). Retrieved May 17, 2019, from theOECD website: http://data.oecd.org/conversion/purchasing-power-parities-ppp.htm

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