

Slide 1

# **Hyperinflation**

## **Inflation – A Simple Explanation**

- **Inflation is defined by economists as a situation where ‘too much money is chasing too few goods’.**

## Slide 3

**In this simple hypothetical economy on a desert island its citizens produce and consume 10 bananas**



**The bananas represent the total of goods and services that are produced and traded within the island's economy**

Slide 4

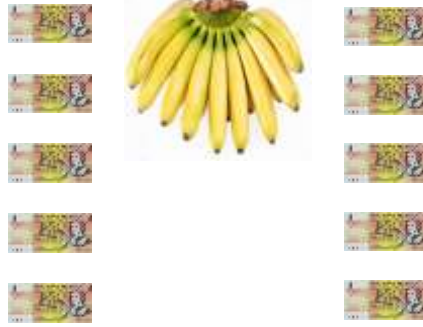
**The islanders also have a printing press to create their money supply.**

**In year one the money supply in this simple island economy consists of ten (10) 1\$ notes.**

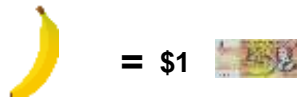


## Slide 5

In Year One the 'price' of each of the ten bananas produced in the island's economy is calculated to be \$1.  
The Total Island Economy - Year One



## The Price of Bananas



## Slide 7

### Year Two

**In Year Two the island suffers from a cyclone,  
which destroys half of the banana crop.**

**(The analogy equates with the quantity of goods the German  
economy paid in 'war reparations' to the French & Belgians  
in 1919)**

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**Year Two Banana Production**



**Meanwhile the island's money supply remains at \$10**

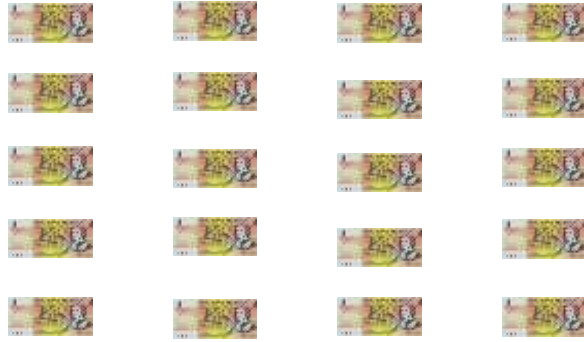


**The Price of Bananas in Year Two**

- The new price for a Banana = \$
- The % rate of the price increase = %

# Slide 10

In Year Three a 'bright spark' comes up with the clever idea of increasing the economy's money supply by printing double the number of notes.



**Now we have an economy where the  
price of a banana has increased to  
\$4!**

**That is an example of Very High/  
Exorbitant INFLATION!**

**Our 'bright spark' next comes up with  
another solution –  
the island economy will now print**

**ONE MILLION**



## Hyperinflation

SO!

Now to buy One banana



an islander will need to pay  X 200,000!

That is 'hyperinflation' where the value of

One  becomes virtually worthless.

## Germany 1919

- **Money to Burn - Literally**



**Play Money / Purchasing a Loaf of Bread**



## **How Wealth was lost in Germany's Hyperinflationary Economy**

Consider the case of prudent and hard-working German families prior to 1919 who had been able and fortunate enough to 'save' some of their earnings, say 1,000 Marks.

In 1918 those savings could potentially have purchased a significant amount of 'goods' or other physical assets such as a property / dwelling.

A year later, with hyperinflation, those savings had become totally worthless!



## **How Wealth was gained by a minority in Germany's Hyperinflationary Economy**

Sharp / astute individuals who purchased physical assets (such as land / property) might purchase the property TODAY for 1 Million Marks with a (for example) 90 days settlement.

On settlement day they would pay the vendor the agreed amount, but in that three months period of time the 1 Million Marks was worth only a fraction of its previous value, while the notional value of the property they purchased had sky rocketed.