ECONOMICS DEPARTMENT

TOPIC – INFLATION IN INDIA

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SEM 2 INDIAN ECONOMY

MEANING OF INFLATION

- Inflation is a quantitative economic measure of a rate of change in prices of selected goods and services over a period of time. Inflation indicates how much the average price has changed for the selected basket of goods and services. It is expressed as a percentage. Increase in inflation indicates a decrease in the purchasing price of the economy.

Types of inflation

- **Classification on the basis of degree of government control**
- Open inflation
- Suppressed inflation
- **Classification on the basis of of political conditions**
- War time inflation
- Post - war inflation
- Peace – time inflation
- **Classification on the basis of rate**
- Creeping inflation
- Walking inflation
- Running inflation
- Hyper inflation

- **<u>Classification on the basis of scope</u>**
- Sectoral inflation
- Comprehensive inflation
- **<u>Classification according to process of rise in price</u>**
- Wage induced inflation
- Profit induced inflation
- Deficit induced inflation
- Demand pull inflation
- Cost pull inflation

CAUSES OF INFLATION

- **Monetary Policy**: It determines the supply of currency in the market. Excess supply of money leads to inflation. Hence decreasing the value of the currency.
- **Fiscal Policy**: It monitors the borrowing and spending of the economy. Higher borrowings (debt), result in increased taxes and additional currency printing to repay the debt.
- **Demand-pull Inflation**: Increases in prices due to the gap between the demand (higher) and supply (lower).
- **Cost-push Inflation**: Higher prices of goods and services due to increased cost of production.
- **Exchange Rates**: Exposure to foreign markets are based on the dollar value. Fluctuations in the exchange rate have an impact on the rate of inflation.

PRICE POLICY OF GOVERNMENT

- **Monetary policy** refers to the central bank's approach to managing the money supply and interest rates through the use of monetary policy instruments under its control . The **Reserve Bank of India (RBI) Act, 1934** was amended in May 2016 to provide a legal foundation for the implementation of the flexible inflation-targeting framework . The primary goal of monetary policy is to keep prices stable (keeping inflation within the target band of 2 percent to 6 percent).
- **Fiscal policy** is the policy by which a country's government controls the flow of tax revenues and public expenditures in order to navigate the economy . For example, during a slowdown, the government may decide to spend more on infrastructure projects and other initiatives in order to stimulate the economy.

- **Increase in agricultural and industrial production** : During the period of planning , government took several measures to industrial and agricultural production. All these measures account for increase in foodgrains production to 2574 lakh tonnes in 2011-2012 as against 550 lakh tonnes in 1951.Industrial development has been indeed noticeable.
- **Dual price policy** : With regard to sugar and cement , government has adopted dual pricing policy . Prices of goods supplied ion controlled price is lower than in the open market.
- **Buffer stock** : government has built buffer stock of essential goods like foodgrains , etc. When the crops are good government buys foodgrain at a fixed procurement price and stock it.

Suggestions to check inflation

- **Check on supply of money**: To check in rises in prices , it is essential that supply of money is not allowed to expand.
- **Less deficit financing** : The amount of deficit financing should be reduced to the bare minimum. By levying taxes on agricultural sector, reducing inessential expenditure , withdrawing subsidies.
- **Restrictions on the export of essential consumption goods:** Export of mass consumption goods like onions , vegetables, cement , sugar etc .
- **Import of essential goods** : Foreign exchange reserve is in comfortable state , at present. It should be used to import essential goods .

Difficulties in controlling the inflation

- **Black money**: the existence of black money has created a parallel economy in the country.
- **Deficit financing**: the fiscal deficit in the annual budgets has been increasing every year. New currency comes in circulations cover this deficit and thus it becomes difficult to control price rise.
- **Increase in population** : The rapid increase in populations a great hindrance in the way of price control . Various population policy measures adopted in five years plans have failed to check its rise.

CONCLUSION

- These are the measures taken to control inflation and deflation in India . Success of anti –inflationary and anti – deflationary policies depends on several factors . It may not produce the expected result always . However , earlier adoption of such policies is necessary to prevent an economic crash.