Mathematically, rate of inflation can be expresses as

Rate of inflation $= \left(\dfrac{P_t - P_{t-1}}{P_{t-1}} \right) \times 100$ percent

Where P_t and P_{t-1} are price level at two time periods respectively. Price level is the average of prices.

The rate of inflation is measured on the basis of price indices which are of two kinds—Wholesale Price Index (WPI) and Consumer Price Index (CPI). A price index is a measure of the average level of prices, which means that it does not show the exact price rise or fall of a single good. The rate of inflation is the rate of change of general price level which is measured as follows:

Rate of inflation (year x) = Price level (year x) - Price level (year x-1) / Price level (year x-1) × 100

This rate shows up in percentage form (%), though inflation is also shown in *numbers* i.e. *digits*. A price index is a weighted average of the prices of a number of goods and services. In the index the total weight is taken as 100 at a particular year of the past (the *base year*), this when compared to the current year shows a rise or fall in the prices of current year, there is a rise or fall in the '100' in comparison to the base year—and inflation is measured in digits.

Inflation is measured '*point-to-point*'. It means that the reference dates for the annual inflation is January 1 to January 1 of two consecutive years (not for January 1 to December 31 of the concerned

year). Similarly, the weekly rate of inflation is the change in one week reference being the two consecutive last days of the week (i.e., 5 p.m. of two Fridays in India).

INFLATION

Effects of Inflation

Effect on Production

Positive/Beneficial Effects
(i) Profit of Business Increases
(ii) Supply Increases

Adverse Effects
(i) Hoarding and Black Marketing.
(ii) Reduces Capital Formation
(iii) Production of Luxuries
(iv) Encourages Speculation
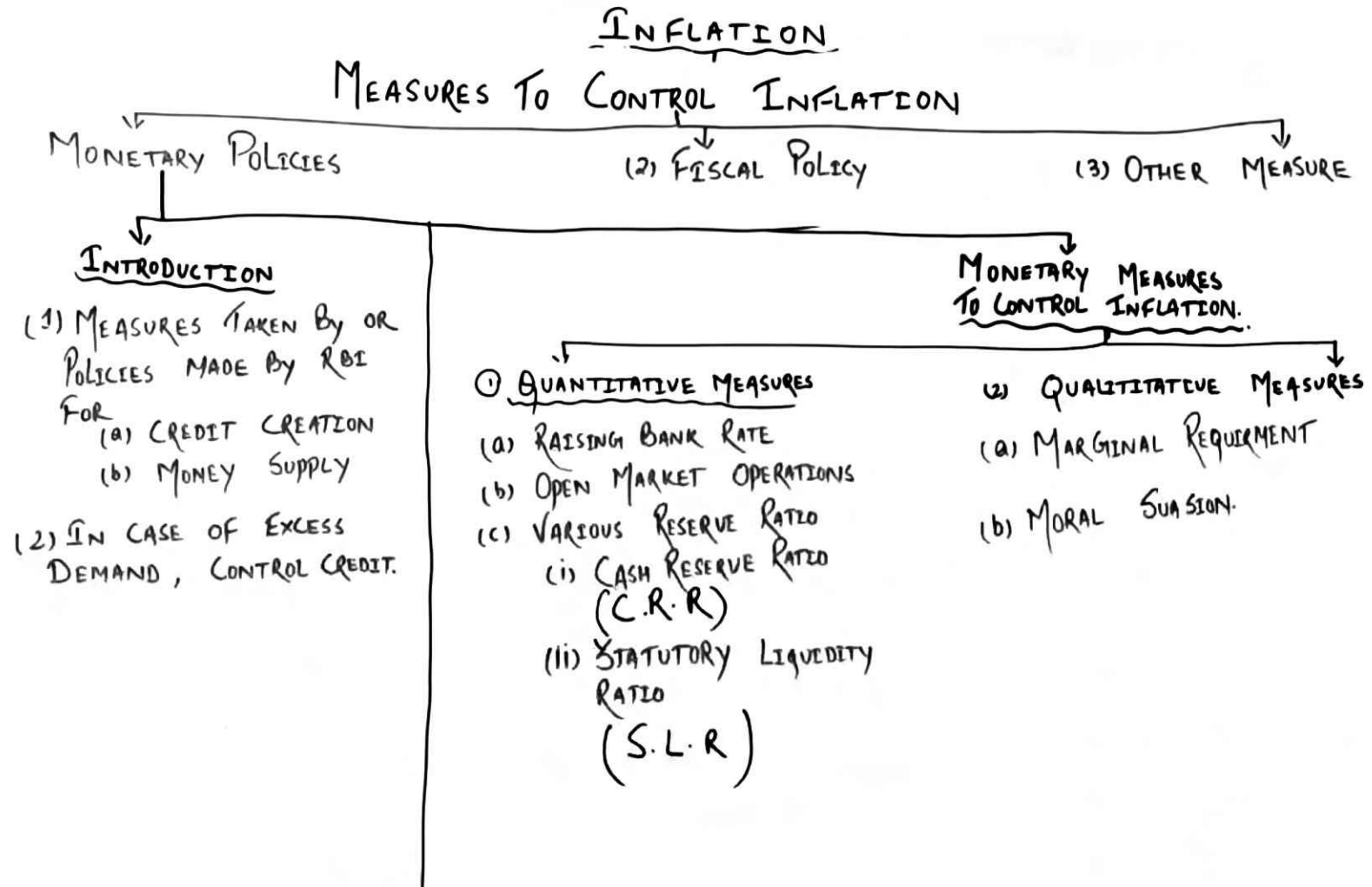(v) Deteriored Quality.

Effects on Distribution of Income

Positive
(i) Benefit to Businessmen and Rich Class.
(ii) Debtors
(iii) Farmers.

Adverse
(i) Creditors
(ii) Wage/Salary Earners
(iii) Consumers
(iv) Small Investors.

INFLATION

MEASURES TO CONTROL INFLATION

MONETARY POLICIES   (2) FISCAL POLICY   (3) OTHER MEASURE

INTRODUCTION

(1) MEASURES TAKEN BY OR POLICIES MADE BY RBI FOR
- (a) CREDIT CREATION
- (b) MONEY SUPPLY

(2) IN CASE OF EXCESS DEMAND, CONTROL CREDIT.

MONETARY MEASURES TO CONTROL INFLATION.

① QUANTITATIVE MEASURES

- (a) RAISING BANK RATE
- (b) OPEN MARKET OPERATIONS
- (c) VARIOUS RESERVE RATIO
  - (i) CASH RESERVE RATIO (C.R.R)
  - (ii) STATUTORY LIQUIDITY RATIO (S.L.R)

(2) QUALITITATIVE MEASURES

- (a) MARGINAL REQUIRMENT
- (b) MORAL SUASION.

Inflation

Measures To Control Inflation

Monetary Policies

Introduction/Definion

→ Revenue and Expenditure Policies of Government

→ In case of Excess Demand Government Reduces Public Expenditure.

Fiscal Policies

Policies

→ Revenue Policies

→ Expenditure Policies.

Other Measures.

→ Control of Prices

→ Wage Freeze

→ Dividend Freeze

→ Increase In Supply of Goods

→ Publi Distrebution of Essential Goods.