

Chapter 17: Inflation: Problem and Policies

Meaning: Inflation refers to a situation of increase in the general price level over a period of time. It is a part of business cycles.

Indicators of Inflation

There are three standard indicators of inflation:

1. Wholesale Price Index (WPI)
2. Consumer Price Index (CPI)
3. Gross Domestic Product (GDP) Deflator

Causes of Inflation

1. Increase in Money Supply
2. Deficit Financing
3. Rise in Population
4. Fall in Production
5. Increase in Wages
6. Administrated Prices
7. Inflation Across the Border's
8. Indirect Tax
9. Credit Expansion
10. Black Money

Effect of Inflation or Problems related to inflation

1. Inflation Hinders the process of growth
2. Adverse effect on the people with fixed Income
3. Increase in the cost of Projects
4. Adverse Impact on Balance of Payments
5. Wage-Price spiral
6. Inequality
7. Economic Stagnation
8. Impact on FDI
9. Speculation and Hoarding

Government Policies to check Inflation

Price Policy

1. Price Control of Essential Goods.
2. Procurement Price and Support Price

Monetary Policy

1. A Check on the supply of Money
2. Increase in rate of Interest

3. Decrease in the supply of Credit

Fiscal Policy

1. A check on public Expenditure
2. Public Debt
3. Increase in Taxes
4. Surplus Budget Policy

Some General Suggestions to Control Inflation

1. Check on Supply of Money
2. Check on Deficit Financing
3. Increase in agricultural Output
4. Tax on Agricultural Income
5. Distribution through fair Price Shops
6. Check on Hoarding