What do we mean by Inflation, Inflation Rate, GDP and what is Impact of GDP

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Agenda

Inflation :

Introduction
Definition of Inflation
What is Inflation Rate
How Inflation is measured?
Causes of Inflation.

GDP :

What is GDP?
Components of GDP
How GDP is calculated?
Impact of GDP

Introduction to Inflation

In Economics Inflation is the rise in general level of prices of goods and services in an economy over a period of time.

When the general price level rises, each unit of currency buys fewer goods and services.

Definition of Inflation

C. Crowther.

Inflation is a state in which the value of money is falling and prices are rising.

Prof. Samuelson

Inflation occurs when general level of cost and prices are rising

Webster

An Increase in the amount of currency in circulation resulting in a relatively sharp and sudden fall in its value and rise in prices.

Inflation Rate

The Inflation rate is the percentage increase or decrease in prices during a specified period, usually a month or a year. The percentage tells you how quickly prices rose during the period.

For example, if the inflation rate for a gallon of gas is 2% per year, then gas prices will be 2% higher next year.
If the price of oil goes from $75 a barrel to $100 a barrel, input prices for businesses will increase and transportation costs for everyone will also increase. This may cause many other prices to rise in response

If inflation is greater than 2%, it becomes dangerous. Walking inflation is when prices rise between 3% to 10% in a year.

4.06%

Inflation Rate of India (Jan 2021)

How Inflation is measured

1.WHOLESALE PRICE INDEX(WPI)

WPI captures goods or services sold by businesses to smaller businesses for selling further

2.CONSUMER PRICE INDEX(CPI)

CPI measures food ,medical care,education,electronics

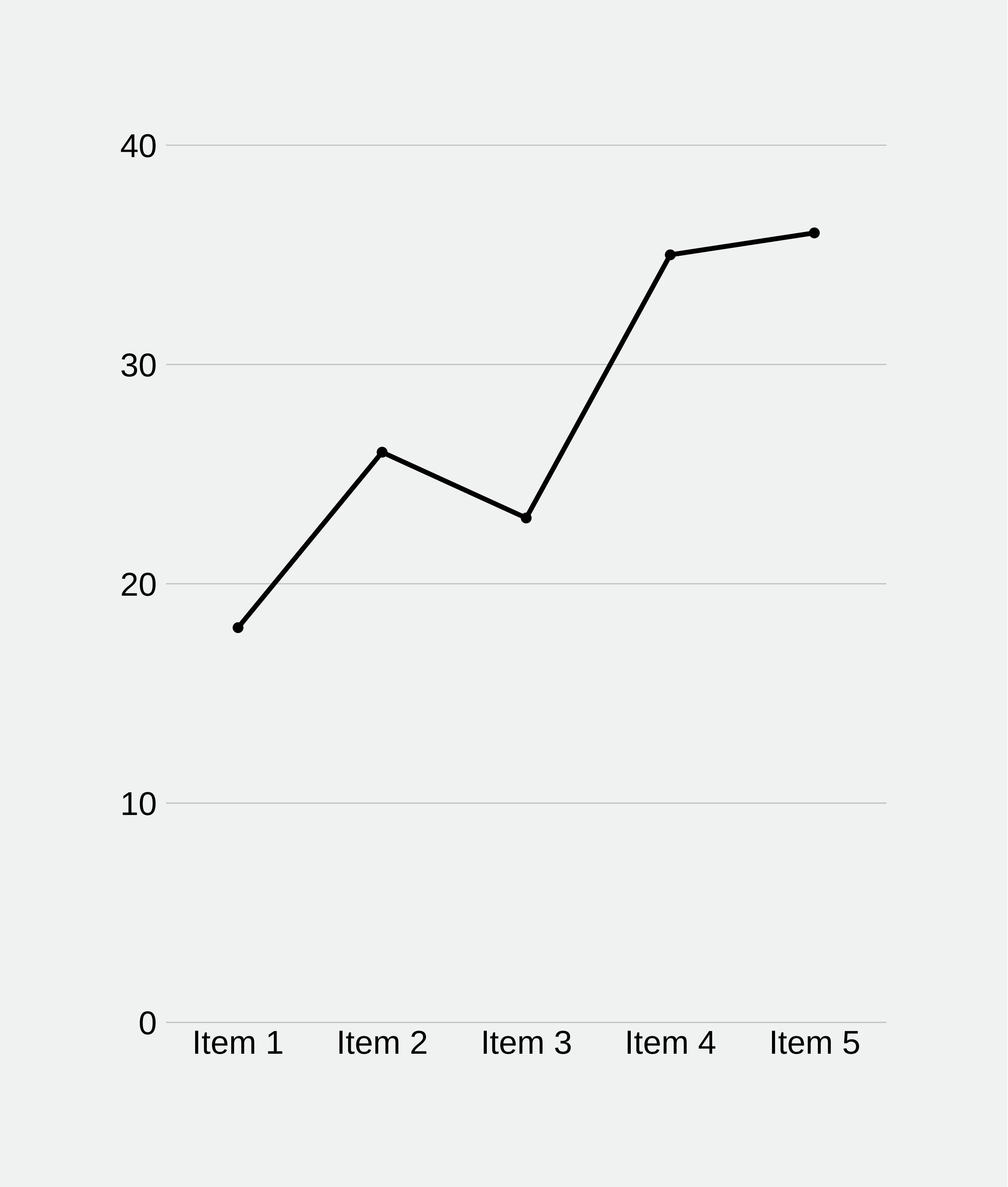
Causes of Inflation

- High demand and low supply of goods leads to hike in prices
- Excess circulation of money leads of inflation
- People having more money ,tend to spend more causes increased demand.
- Spurt in cost of production causes inflation

IS INFLATION BAD FOR EVERYONE ?

- some inflation is necessary for economic growth.
- However,beyond a limit ,inflation hurts both consumers and economic growth.
- Inflation has an impact on assets you hold.

GDP



What is GDP ??
Gross Domestic Product

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year.

GDP growth rate is an important indicator of the economic performance of a country.

Components Of GDP

Four major components of GDP

1. Private Consumption
2. Investment Expenditure
3. Government spending
4. Net Exports

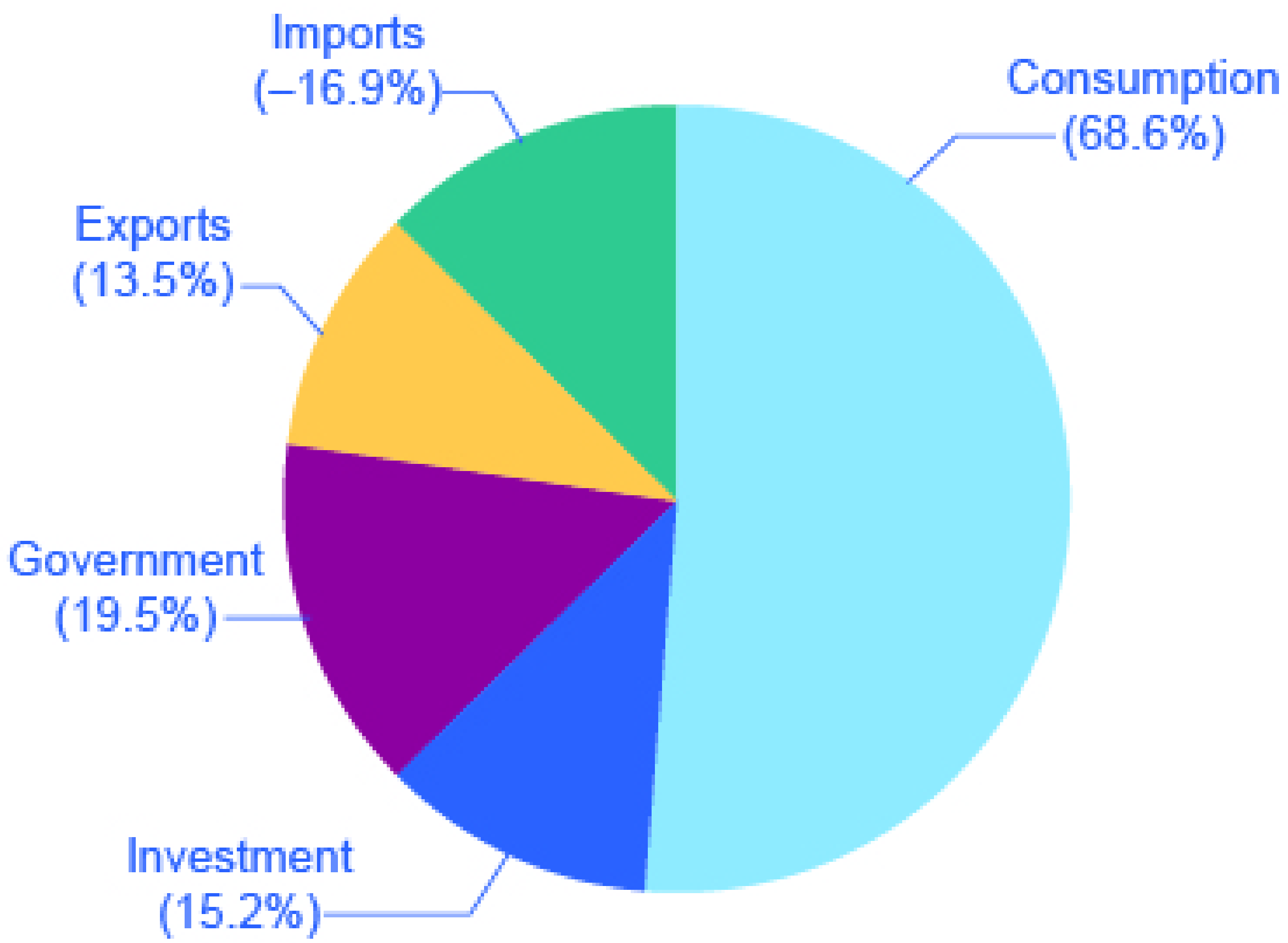
1.Consumption :
The spending by households on goods and services, with the exception of purchases of new housing

2.Investment :
The spending on capital equipment, inventories, and structures, including new housing.

3.Government Purchases :
The spending on goods and services by local, state, and federal governments.

4. Net Exports :
Exports minus imports. (X - M)
where, x = Export and M = Import

How GDP is Calculated



The Gross Domestic Product can be calculated using the following formula.

formula :- GDP = C + G + I + NX

where,
C=consumption
G=government spending
I=Investment
NX=net exports

When GDP Declines What happen in Country ?

It leads to a higher national income and enables a rise in living standards.

fall in GDP affects the poor more. Inequality may become more noticeable.

When GDP falls The government then looks for alternative sources to cover the shortfall. Like increasing the taxes on petrol and diesel or borrowing more money.

When GDP increase
What happen in Country ?

An increasing GDP is often seen as a measure of welfare and economic success.

When a country's GDP is high it means that the country is increasing the amount of production that is taking place in the economy and the citizens have a higher income and hence are spending more.

Incrase in the average income of businesses then signals a increasing in job opportunities.

Thank you !!