

# Inflation

# Inflation

Inflation is the percentage change in the value of the Price Index (PI) on a year-on year basis.

**Various indices to measure inflation are:**

- a) WPI (Wholesale Price Index)
- b) CPI (Consumer Price Index)
- The basic cause of inflation is the circulation of money in the market is more.
- Mild inflation is good for an economy.

# Types of Inflation

- Demand Pull Inflation
- Cost Push Inflation
  - Demand-pull inflation occurs when demand exceeds supply.
  - Cost-push inflation happens when there is an increase in the cost of raw materials needed to produce the goods.

# Important Terms

1. **Core Inflation:** It reflects the long-term trend in a particular price level. It is a measure of inflation that excludes certain items that face volatile price movements .
  - It is most often calculated using Consumer Price Index (CPI), which eliminates products usually in the energy and food sectors.
2. **Hyperinflation:** When a country experiences very high and usually accelerating rates of inflation (usually 3 digits).

3. Stagflation: is a situation in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high.
  4. Deflation: is a contraction in the supply of circulated money within an economy, and therefore the opposite of inflation.
- Out of Inflation & Deflation, Inflation is better. Because during inflation, economy is growing.

# Measures to Control Inflation

1. Monetary Measures
  - a) CRR (Cash Reserve Ratio)
  - b) SLR (Statutory Liquidity Ratio)
  - c) Repo rate
  - d) Reverse repo rate

# Monetary Measures

- The government of a country takes several measures and formulates policies to control economic activities.
  - Monetary policy is one of the most commonly used measures taken by the government to control inflation.

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## 2. Fiscal Measures

- a) Increase in taxes
- b) Decrease in expenditure
- c) Increase in savings



# Fiscal Measures

- Apart from monetary policy, the government also uses fiscal measures to control inflation. The two main components of fiscal policy are government revenue and government expenditure.
- In fiscal policy, the government controls inflation either by reducing private spending or by decreasing government expenditure, or by using both.

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- It reduces private spending by increasing taxes on private businesses.
- When private spending is more, the government reduces its expenditure to control inflation.
- However, in present scenario, reducing government expenditure is not possible because there may be certain on-going projects for social welfare that cannot be postponed.

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- Besides this, the government expenditures are essential for other areas, such as defense, health, education, and law and order.
- In such a case, reducing private spending is more preferable rather than decreasing government expenditure.
- When the government reduces private spending by increasing taxes, individuals decrease their total expenditure.