



Mahendra's

WEEKEND SPECIAL

GA-GS

INFLATION



LIVE

23 JAN

01:15 PM



Relevance:

- Banking
- SSC
- State PSC
- CSE

Introduction

- Inflation: Rise in the general price level **continuously**.
- It is a sustained increase in the general level of prices.
- Inflation causes a **fall/devaluation** in the currency.
- Inflation leads to a decrease in the purchasing power.



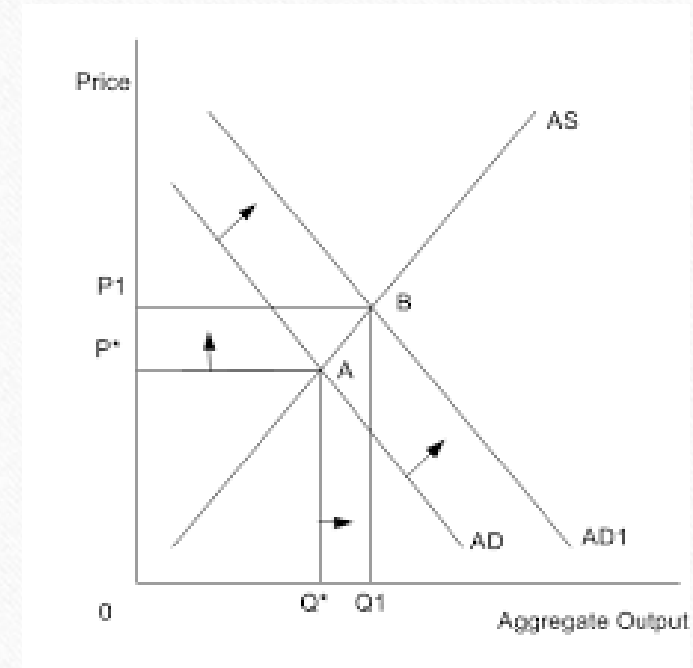
Different stages of inflation

- Creeping/Mild inflation: 0-3%
- Trotting/Walking inflation: 3-10%
- Galloping inflation: 10-20%
- Hyperinflation- above 20%



Different causes of inflation

- Demand pull inflation
- Demand exceeds the Supply
- Demand pulls the price level up



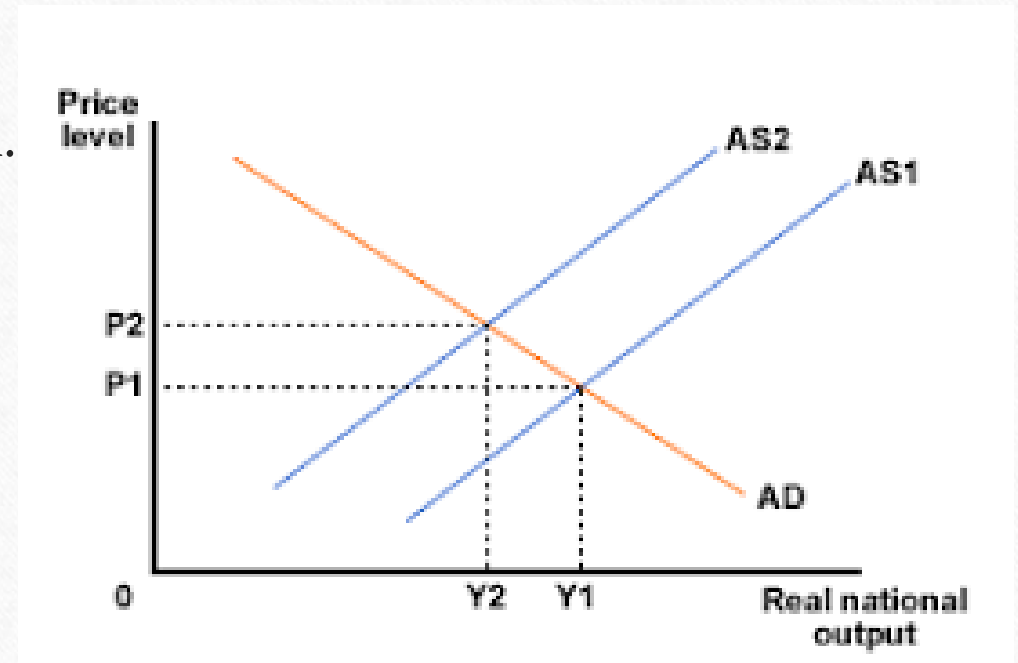
Different causes of inflation

- Wage is the factor income earned by the factor **labour**
- An increase in the wage leads to higher cost of production
- Higher cost of production causes rise in the price level



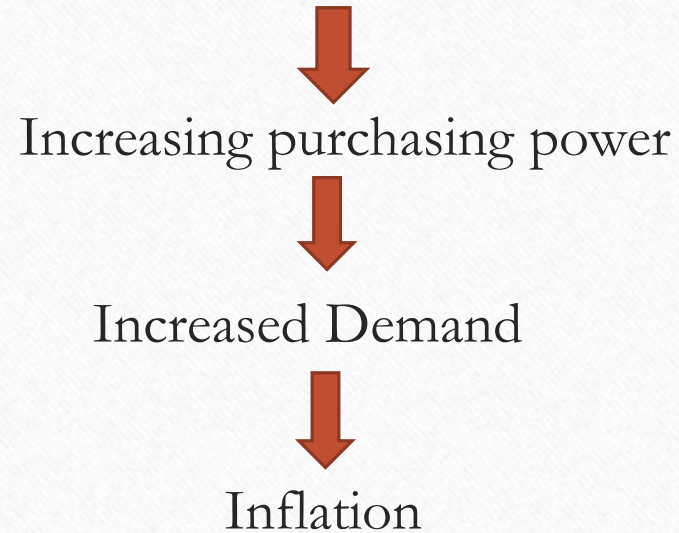
Different causes of inflation

- Cost push inflation
 - A rise in the payment/cost of production.
 - Higher cost of production
- ↓
- Higher prices of goods & services
- ↓
- Inflation



Different causes of inflation

- Currency inflation- Due to excess currency in circulation
- Credit inflation- Availability of excess credit



Previous year Questions (1)

- Q. Which of the following factors is/are responsible for inflation?
 - A. The gap between demand and supply
 - B. Excess money circulation
 - C. Increase in tax rates
 - D. Both (A) & (B)



Previous year Questions

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Effects of Inflation

Gainers

1. Debtors
2. Businessmen
3. Farmers
4. Shareholders

Sufferers

1. Creditors
2. Fixed salaried persons
3. Pensioners
4. Bond & Debentureholders

Previous year questions (2)

- Q. Which of the following parties gain during inflation?

A. Creditors

B. Shareholders

C. Mr. X, an SBI clerk

D. Mrs. Y, a retired employee

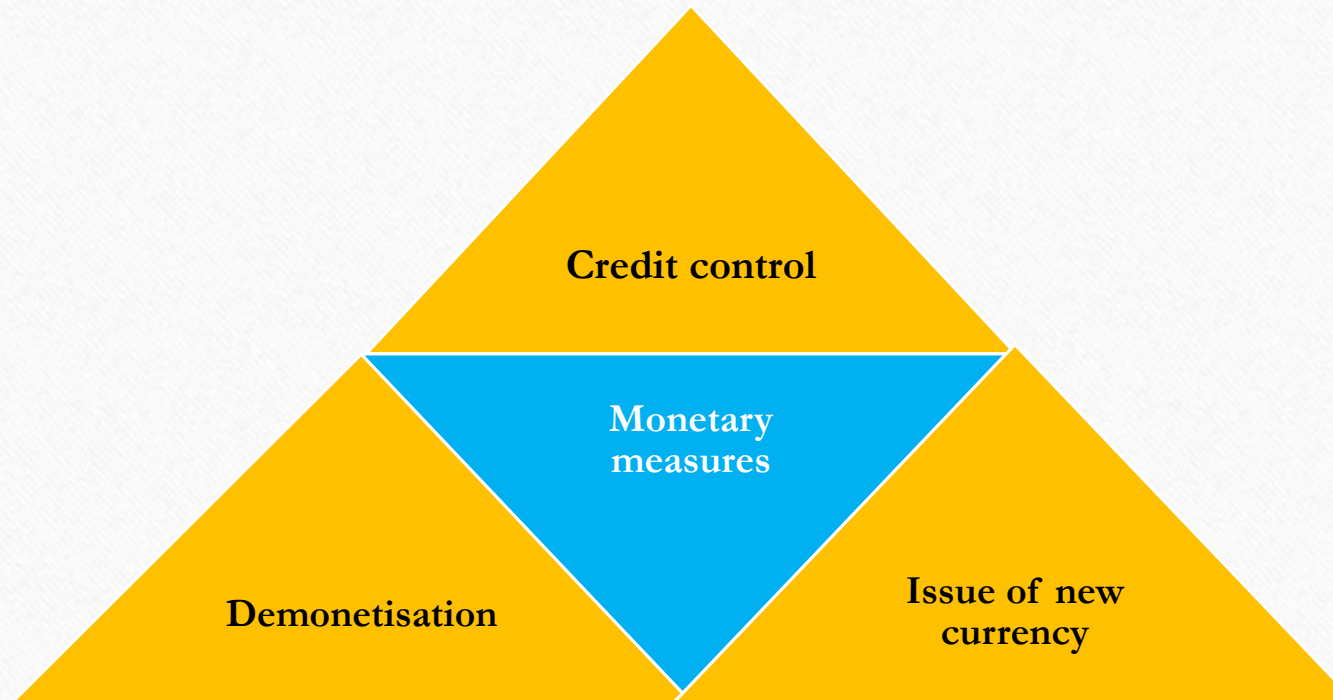


Previous year questions

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Measures to control inflation



Previous year questions (3)

- Q. Price can be stabilized by-
 - A. Decreasing production
 - B. Increase in demand
 - C. Control of money supply
 - D. Devaluation of currency

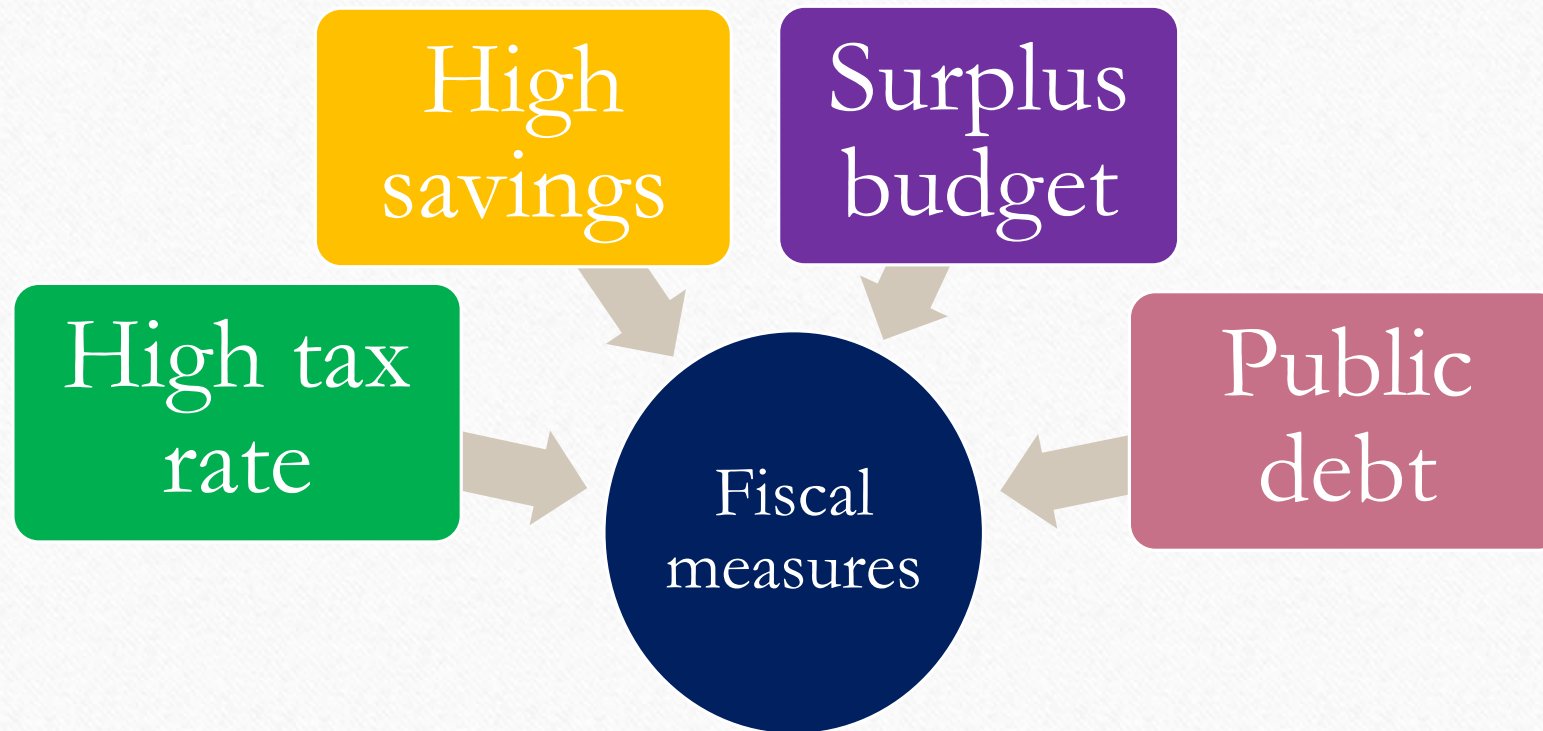


Previous year questions

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Measures to control inflation



Measures to control inflation

Other measures

Increase production

Rational wage policy

Price control

Measures/ Computation of Inflation

1. Wholesale Price Index (WPI)

➤ **Published by the Ministry of Commerce & Industry**

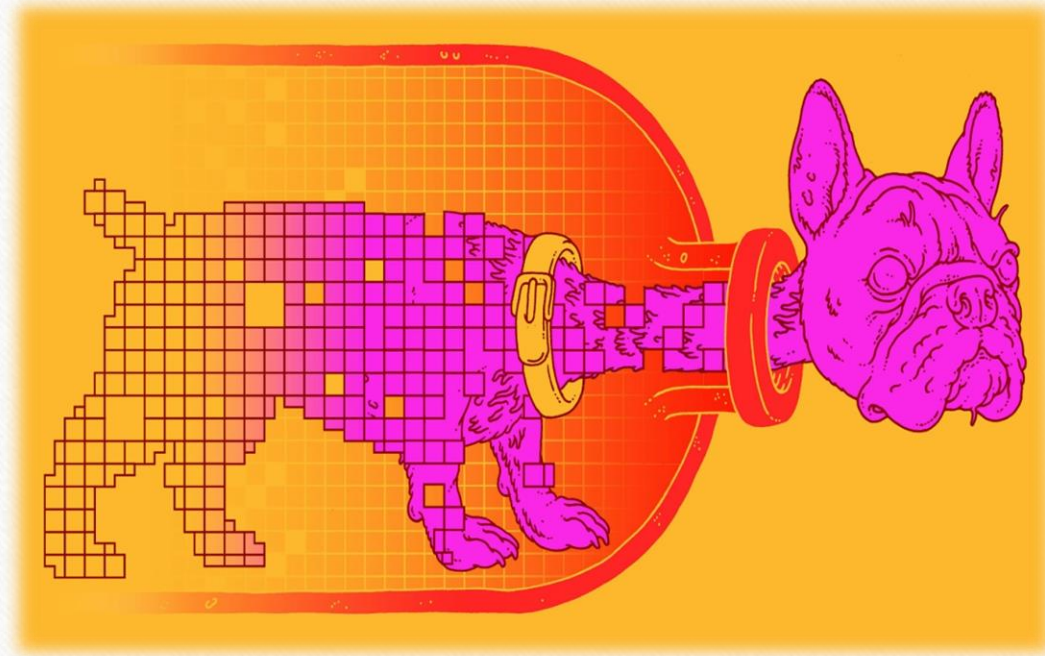
2. Consumer Price Index (CPI)

➤ **Published by the Ministry of Statistics and Programme Implementation**

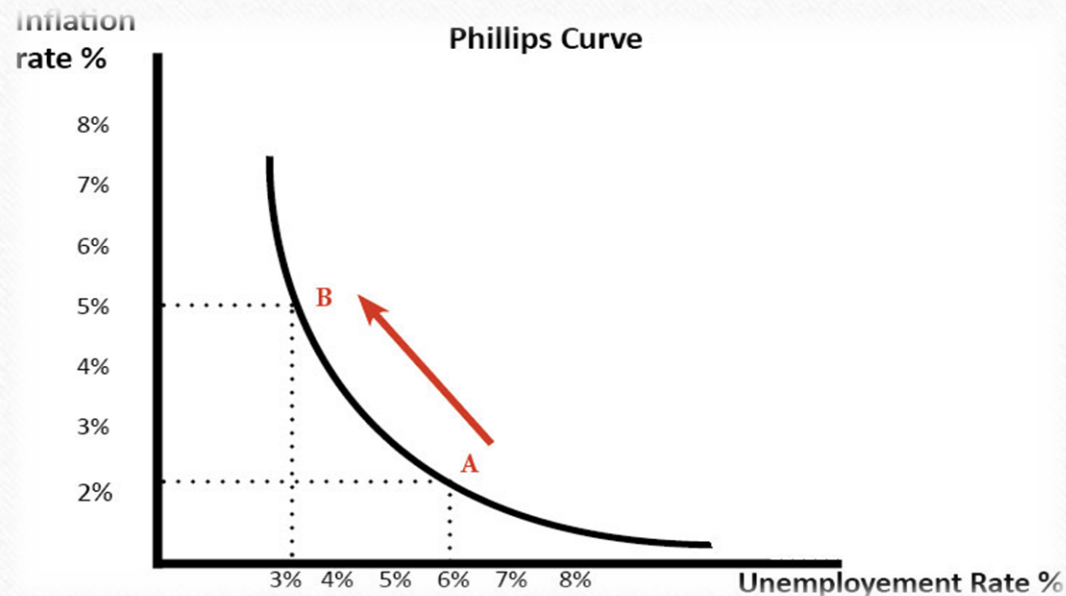
Important terms

BOTTLENECK INFLATION

This inflation takes place when the supply falls drastically and the demand remains at the same level.



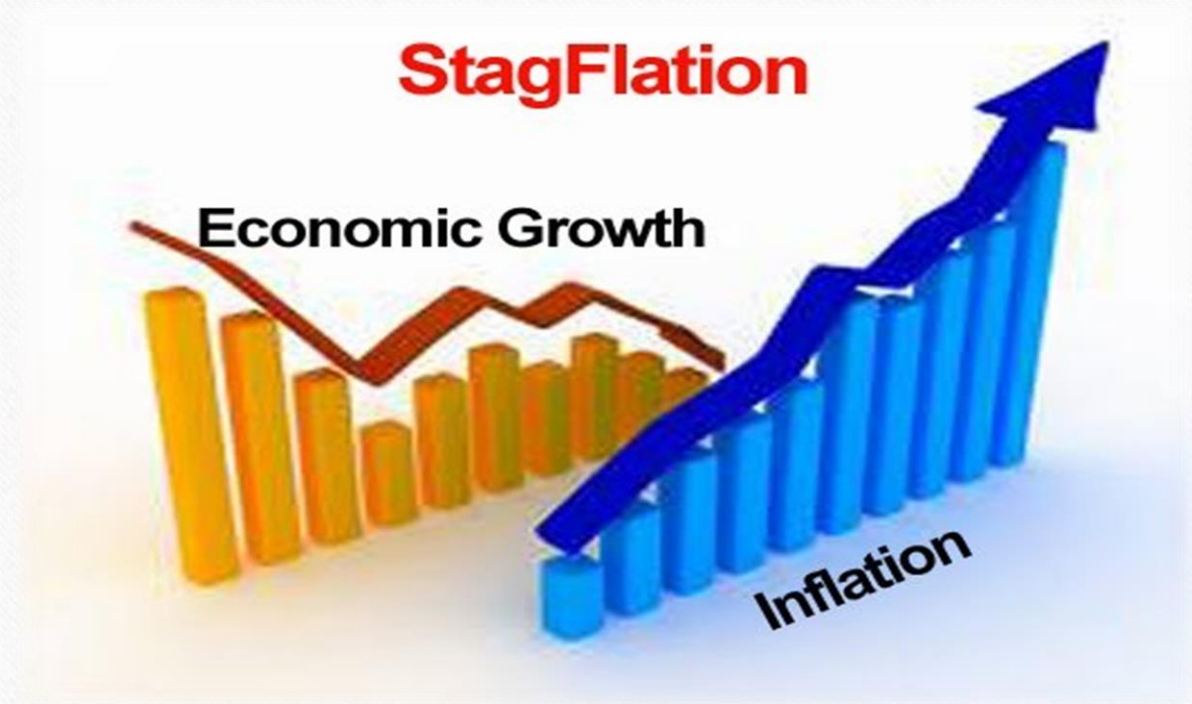
Phillips Curve



It is a graphic curve which advocates a relationship between inflation and unemployment in an economy. The curve suggests that lower the inflation, higher the unemployment and higher the inflation, lower the unemployment.

Stagflation

It is a situation in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high



Recession



- A recession is a significant decline in economic activity that goes on for more than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade.

Previous year questions (3)

1. Which of the following statements is correct with reference to India?
 - a. Controlling inflation is the responsibility of the GOI only
 - b. The RBI has no role in controlling inflation
 - c. Decreased money supply controls inflation
 - d. Increased money supply controls inflation

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Previous year questions (4)

Q. STAGFLTION is a condition ,when -

- A. High level of inflation and High level of economic growth
- B. High level of inflation and Low level of economic growth
- C. Low level of inflation and Low level of economic growth
- D. Low level of inflation and High level of economic growth

Previous year questions (4)

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- D. Low level of inflation and High level of economic growth

Previous year questions (5)

- Q. The Phillips curve shows-
 - A. Relation between inflation and employment
 - B. Relation between inflation and unemployment
 - C. Relation between inflation and borrowing
 - D. Relation between inflation and revenue

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