INFLATION

- **CONCEPTS & DEFINITIONS**

Inflation is an economical situation where prices of goods and services will be increases as well as decline in value and purchasing power of money.

There are 2 factors behind Inflation –

1) **Primary – Money Flow**
2) **Secondary – (i) Demand**
   (ii) cost

TYPES OF INFLATION ACCORDING TO FACTORS

HEADLINE INFLATION

DEMAND-PULL INFLATION

COST-PUSH INFLATION

CORE INFLATION

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CORE INFLATION

Core Inflation is the change in costs of goods and services, but does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile. It is most often calculated using the Consumer Price Index (CPI).

HEADLINE INFLATION

Headline Inflation is the change in costs of goods and services along with including the food and energy sectors. It is totally opposite to Core Inflation.

Measurement of Inflation

Current Inflation Rate = [(Current Price Index - Base year's Price Index) ÷ Base year's Price Index] X 100

Increase or decrease in general price level is measured against price level of some reference year called base year.

What is Base Year?

MEASURES TO CONTROL INFLATION

Monetary Measures → Credit Control, Demonetisation of Currency, Issue of New Currency in place of the Old Currency

Fiscal Measures → Reduction in Unnecessary Expenditure, Increase in Taxes, Increase in Savings, Surplus Budgets, Public Debt

Other Measures → To Increase Production, Rational Wage Policy, Price Control, Rationing

Types of Inflation according to Rates

(1) Creeping Inflation – (0% to less than 3%)

(2) Walking Inflation – (3% to less than 10%)

(3) Running/Trotting Inflation – (10% to less than 20%)

(4) Galloping Inflation – (20% to less than 100%)

(5) Hyper Inflation – (100% or Above/ 3 Digit Inflation)

(6) Ideal Inflation – (4% to less than 5.5%)

** Rate of Ideal Inflation depends upon Economical Structure & Purchasing Power of Common Man of the country.

Types of Inflation according to Stages

- Deflation — Decreased Inflation — ↓ Prices of Good & Services
  ↓ ₹ flow
- Recession
- Depression
- Reflation
- Disinflation
- Stagflation
- Phillips Curve
- Bottleneck Inflation

Recession

मंदी Deflation

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.

100 – 95

Tradition of Bearing Min. Loss

Deflation

Unsustainable Profit

In – 100 – 150 – 50

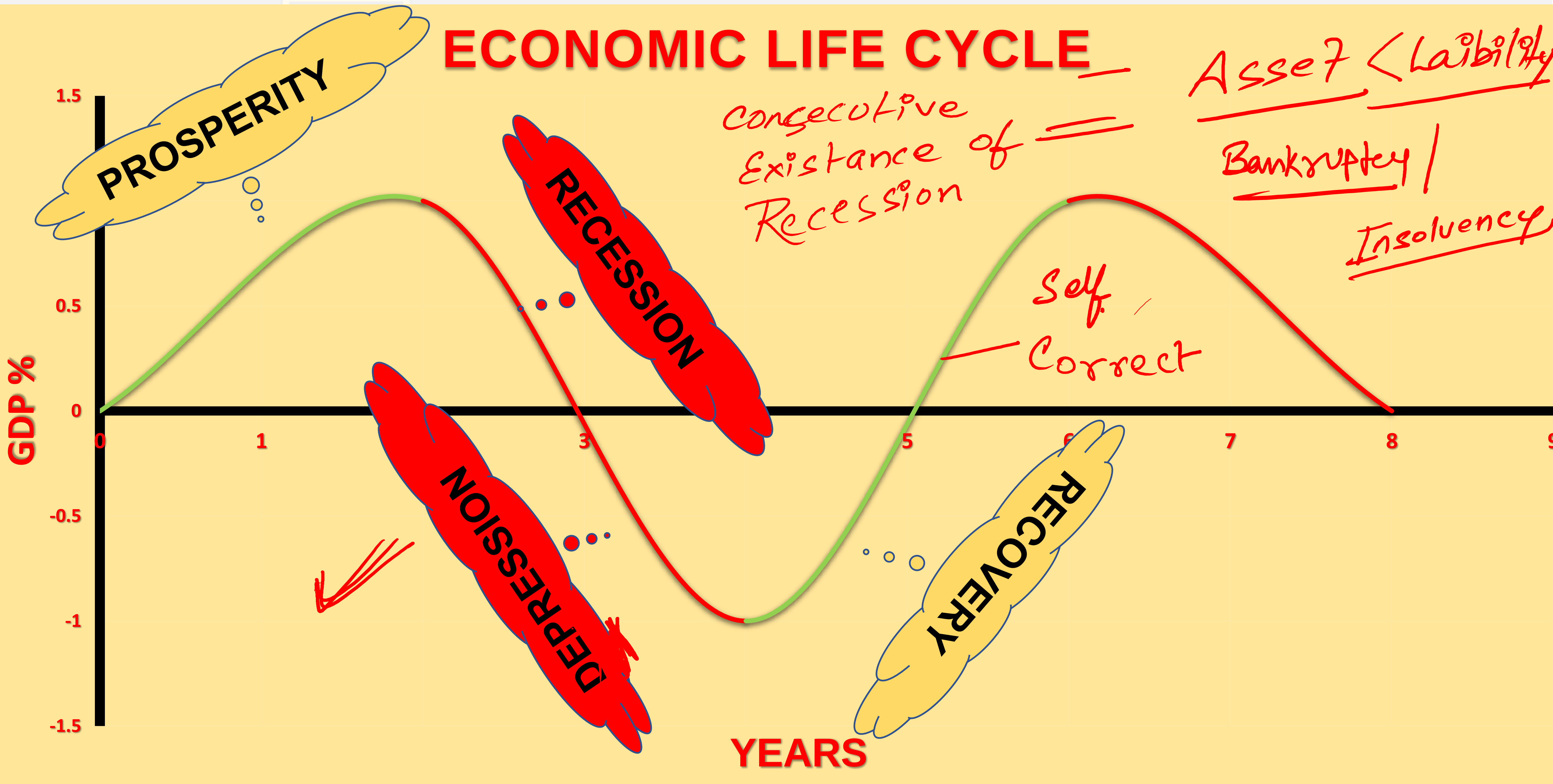
20 – 30

Spending Buyer↓ Demand ↑ Supply

Def – 100 – 112 – 12 – 16 – 26

Deflation is the general decline in prices for goods and services occurring when the inflation rate falls below 0% ↓

ECONOMIC LIFE CYCLE



Repeated Inflation

Reflation

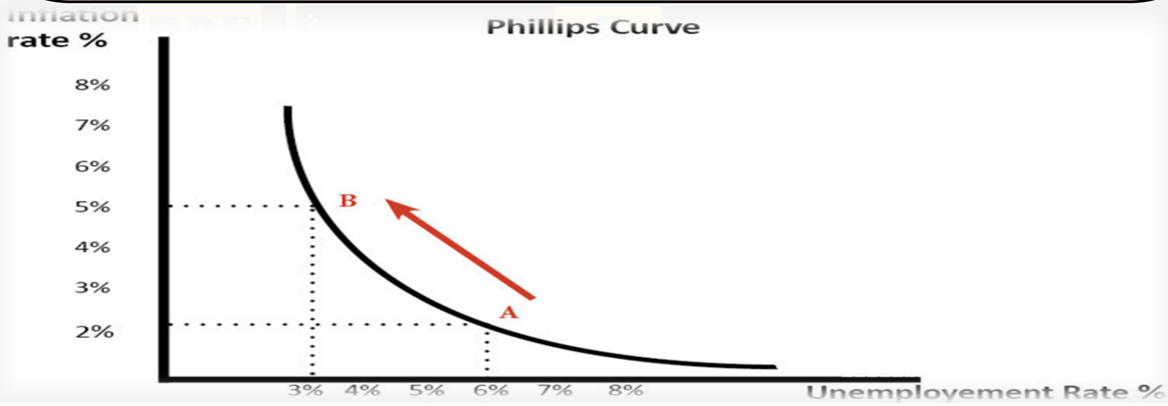
Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes, seeking to bring the economy (specifically price level) back up to the long-term trend, following a dip in the business cycle.

Disinflation

It is a temporary slowing of the pace of price inflation. It is used to describe instances when the inflation rate has reduced marginally over the short term.

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