



WB/ KP SI & CONSTABLE



ECONOMICS

INFLATION

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LIVE

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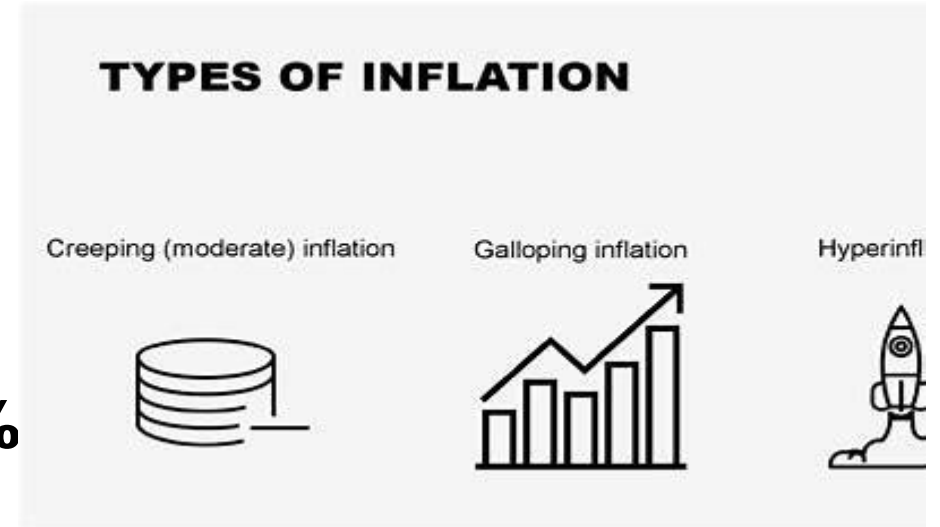


DEFINATION

- **ACCORDING TO KEYNES, “INFLATION REFERS TO A RISE IN PRICE LEVEL AFTER FULL EMPLOYMENT LEVEL HAS BEEN ACHIEVED.”**
- **WHEN THE PRICE OF GOODS AND SERVICES (MAXIMUM PRODUCTS) CONTINUOUSLY INCREASES AND SUSTAINED FOR A CERTAIN PERIOD OF TIME IS KNOWN AS INFLATION.**
-

STAGES /TYPES OF INFLATION

- **CREEPING INFLATION -0% TO 3%**
- **TROTting INFLATION – 3% TO 10 %**
- **GALLOPING INFLATION – 10% TO 20%**
- **HYPER INFLATION- > 20%**

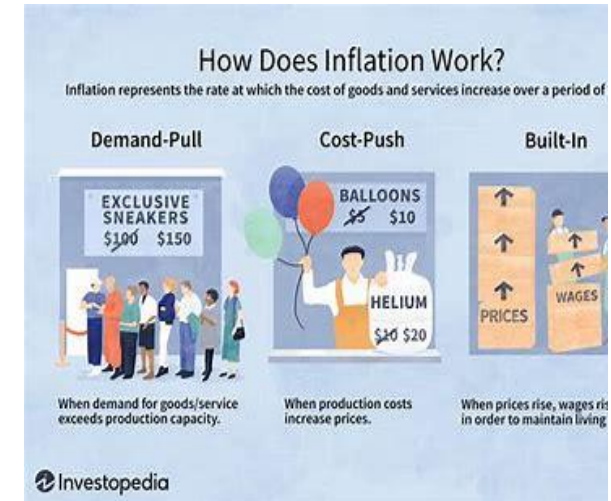


CAUSES OF INFLATION

- **DEMAND PULL INFLATION** – WHEN DEMAND IS MORE THEN SUPPLY (MISMATCH IN DEMAND AND SUPPLY) IT PULLS UP PRICE. THIS IS KNOWN AS KEYNESIAN IDEA.

- **COST PUSH INFLATION** –

IF FACTOR COST INPUTS (WAGES , RAW MATERIAL AND TECHNOLOGY)INCREASES THEN IT EFFECT COST OF PRODUCTION. IF PRODUCTION COST INCREASES IT PUSH THE PRICE OF FINAL GOODS AND SERVICES WHICH IS KNOWN AS COST PUSH INFLATION.



Reason of Demand pull

- **More money supply in economy.**
- **More export.**
- **More Investment by Government.**

BASE YEAR

- **Base year is a year where price of goods and services are moderate.**

MEASURING INFLATION

☐ WPI (wholesale price Index)

☐ **BASE YEAR DECIDED BY- DPIIT (The department for promotion of Industry and Internal trade.)**

☐ **BASE YEAR- 2011-12**

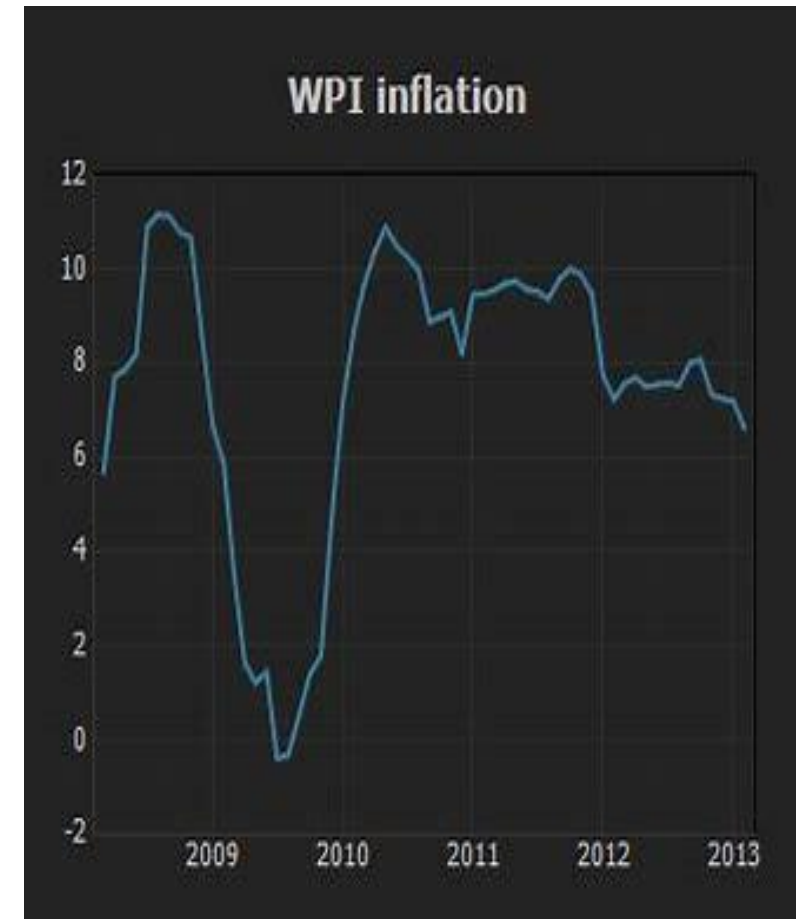
☐ **NO OF ITEMS-697**

☐ **Three Groups (Only Goods) –**

☐ **1) Primary articles**

☐ **2) Fuel and power**

☐ **3) Manufactured goods.**



CPI CONSUMER PRICE INDEX

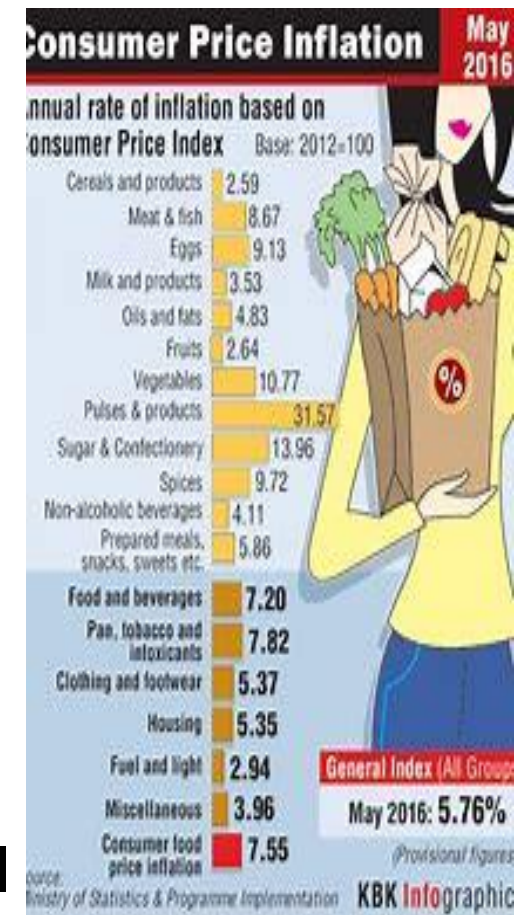
❑ **BASE YEAR -2012**

❑ **Base year is decided by –CSO/NSO(National statistical office)**

❑ **Number of item (Rural-448 and Urban-460)**

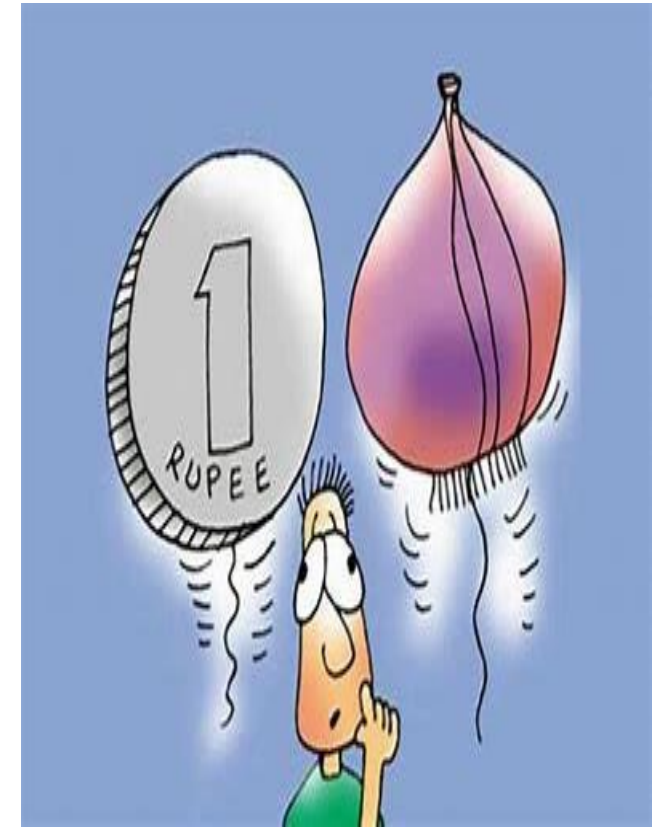
❑ **Eight groups (Sectors): Education, Communication, Transportation, Recreation, Apparel, Food and Beverages, Housing and Medical care.**

❑ **Four Economical Group: AL, IW, UNME, RL.**



MEASURES TO CHECK INFLATION

- **FISCAL POLICY :** IT IS A POLICY BY WHICH BY CHANGING **TAXATION OR PUBLIC EXPENDITURE** GOVT TRY TO REDUCE LIQUIDITY IN AN ECONOMY WHICH CONTROL INFLATION IN AN ECONOMY.
- **SUPPLY SIDE MEASURES :** IN THIS CASE GOVT GO FOR MORE IMPORT AT LESSER COST AND GOOD QUALITY WHICH EQUATES DEMAND AND DISCOURAGE BLACK MARKETERS FOR PRICE SPECULATION IN TERMS OF GOODS SUPPLY.



COST SIDE MEASURES : GOVT MAY GIVE SOME RELAXATION TO FARMERS IN TERM OF SETTING HIGHER MSP (high production) OR CHARGING LESS TAXATION.

MONETARY POLICY MEASURES: BY THIS POLICY RBI CHANGE RESERVE RATES (CRR,SLR) OR POLICY RATES (REPO,REV REPO, BANK RATE ,MSF) TO CONTROL EXCESS LIQUIDITY OR RESERVE FUND IN AN ECONOMY FOR SHORT TERM OR LONG TERM ACCORDING TO THE REQUIREMENT

OTHER VARIANTS OF INFLATION

- **Bottleneck inflation :**
- **When supply fall drastically and Demand remain same or it goes up because of expectation of price rise in future.**
- **It occurs due to natural calamities, pest attack or less production.**

HEADLINE INFLATION :

- **WHEN THE PRICE OF ALL THE FINAL GOODS AND SERVICES INCLUDING FOOD AND ENERGY GOES UP KNOWN AS HEADLINE INFLATION.**
- **CORE INFLATION :** WHEN THE PRICE OF ALL GOODS AND SERVICES OTHER THAN FOOD AND ENERGY INCREASES IS KNOWN AS CORE INFLATION.

OTHER IMP TERMS

- **INFLATION SPIRAL:** IT IS THE INTERACTION BETWEEN WAGE AND PRICE. WHEN WAGE PRESS PRICE UP AND PRICE PULL WAGE UP IS KNOWN AS INFLATION SPIRAL. IT IS ALSO KNOWN AS THE WAGE PRICE SPIRAL.
- **SKEWFLATION :** ECONOMISTS USUALLY DISTINGUISH BETWEEN INFLATION RELATIVE PRICE INCREASE.
- **IN 2009 FOOD PRICE INCREASES STAIDLY WHERE AS NON FOOD ITEMS CONTINUED TO BE RELATIVELY STABLE.**

- **Disinflation:** By increasing tax rate and policy rate when Govt and RBI try to reduce excess inflation.
- **Reflation:** when inflation is less than its normal then Govt and RBI want to increase employment and GDP then GOV reduce taxation or public expenditure or RBI reduces policy rate to generate more inflation GDP and employment is known as reflation.

- **Stagflation** : when inflation is at its highest level, GDP is at its lowest level and unemployment continuously increases is known as stagflation.
- **Stagflation** = Hyper inflation + Recession
- **Agflation** – Inflation in Agriculture.

CURRENT INFLATION RATE CALCULATION

- **CURRENT INFLATION RATE :**
[CURRENT PRICE INDEX –BASE
YEARS PRICE INDEX/BASE YEARS
PRICE INDEX] * 100

THANK YOU