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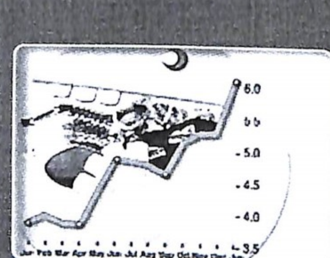

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Inflation and Its Impact on Indian Economy

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- **Abstract :-**

Inflation has long the common man's concern about economy. In regular social discourse and everyday conversation inflation is commonly referred as the synonymous index for the price hike of daily commodities. Though inflation is the most immediate economic parameter to be associated with the hike of price, it has its long and far reaching effects on the society and social concerns. Globally the strong currencies those control the monetary strategies in the international level are less vulnerable to the effects of global inflation than the currencies of the poorer and developing nations. So in respect of obtaining a better view of the effects and influence of inflation on the society we need take to mainly the experience of poor and developing nations which are commonly termed as Third world. This paper analyses the effects of inflation on our country's economy that emerged in the recent past.

Key Words : Inflation, Economy, Monetary strategy.

❖ **Introduction :-**

Though inflation has always been a major public concern and always been subject to heated political debate. Inflation is price rise of goods and services, which decrease the purchasing capacity of the people. It is an astonishing truth that since 1950 India has experienced one of the lowest inflation rates in the world in comparison to other developing countries and most of these years. It had consistently maintained a steady control over the inflation rate by limiting it to only a single digit figure. The biggest turmoil of inflation came in the year 2008 to 2009 when India experienced both the highest ever rate of inflation in the country and the lowest rate also with in span of just few months. Though with proper and efficient fiscal management India has been able to mostly avoid the disastrous global effect of inflation, various sectors of Indian economy suffered from the onslaught of inflation in various periods. Presently oil and aviation fuel, automobile, banking, steel and cement are some of the key industries that are mostly suffering from the present inflation syndromes. Among other industries IT, FMCG or consumer durable industries are facing pressurized by the effect of inflation and either increasing the price of their deliverables or initiating severe cost cutting measures.

High inflation has an adverse impact on growth through a variety of channels. First high inflation leads to uncertainty which impacts investment & growth. Second high inflation makes banks deposits less attractive & encourages investment in physical assets & speculative activities, which leads to diversion of saving away from formal.

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❖ Objective Of The Study :-

The main objective of the study is to analyse the impact of inflation in Indian economy with respect to growth rate from the year 2004 to 2013.

❖ Methodology :-

The study is based on secondary data. Inflation and growth rate is collected from world Economic Outlook for the period of ten years from 2004 to 2013.

Tools Used

'Karl Pearson's correlation coefficient is used to study the relationship between inflation and growth.'

Table : Karl Pearson's correlation

Year	Inflation	Growth	x^2	y^2	xy
2004	4.2	7.59	17.64	57.61	31.88
2005	4.2	9.03	17.64	81.54	37.93
2006	5.3	9.53	28.09	90.82	50.51
2007	6.4	9.99	40.96	99. 80	63.94
2008	8.3	6.19	68.89	38.32	51.38
2009	10.9	6.77	118.81	45.83	73.79
2010	11.7	10.09	136.89	101.81	118.05
2011	8.9	7.8	79.21	60.84	69.42
2012	9.3	6.5	86.49	42.25	60.45
2013	9.6	3.2	92.16	10.24	30.72

$$\text{Correlation Coefficient (r)} = \frac{N\epsilon xy - \epsilon x\, \epsilon y}{\sqrt{N\epsilon x^2 - (\epsilon x)^2}\sqrt{N\epsilon y^2 - (\epsilon y)^2}}$$

$$r = \frac{10\ X\ 588.07 - 78.8\ X\ 76.69}{\sqrt{10\ X\ 686.78 - (78.8)^2}\sqrt{10\ X\ 629.06 - (76.69)^2}}$$

$$r = 0.313$$

According to the table correlation between Inflation and growth is 0.313. There are number of factors that affect the economic growth, inflation is one among them. A single factor affects the growth up to 0.3 shows a strong impact of inflation on economy.

❖ Controling Measures :-

There are broadly two ways of controlling inflation is an economy.

1) Monetary Measures :

The most important and commonly used method to control inflation is monetary policy of Central Bank. Most Central banks use high interest rates as the traditional way to fight or prevent inflation. Monetary measures used to control inflation include.

i) Bank rate policy
ii) Cash reserve ratio and
iii) Open market operations.

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2) **Fiscal measures :**

Fiscal measures to control inflation include taxation, government expenditure and public borrowings. The government can also take some protectionist measures such as banning the expert the essential items like pulses, cereals and oils to support the domestic consumption encourage imports by lowering duties on import items etc.

❖ Conclusion :-

Indeed, compared with a fragile world economy, India on autopilot could change along quite happily, growing faster than most other countries. The government would carry on acting like a tinkering housekeeper with a habit of pinching loose change. Plenty of new firms would still triumph despite the red tape and most people would be better off. There would be fewer roads and more poor people than there might otherwise be, but the opportunity cost of the forfeited reforms would be a subject confined to scholarly debate. All that would still be a vast improvement on how things once were. Yet it would be a curious finale for the politicians and officials now in power who pushed through the reforms of 1991.

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