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NATIONAL LEVEL SEMINAR ON

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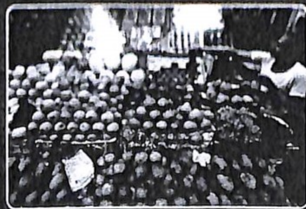

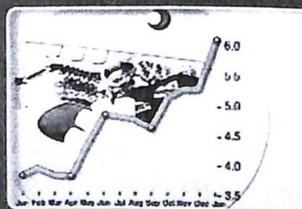

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"Education Through Self - Help is our motto" - Karmaveer

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PROCEEDING

NATIONAL LEVEL SEMINAR

ON

INFLATIONARY PRESSURE ON INDIAN ECONOMY

29th & 30th Aug 2016

Sponsored by

University Grants Commission, New Delhi

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Inflation: Causes and Impact

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- **Introduction**

The term "inflation" originally referred to increases in the amount of money in circulation, and some economists still use the word in this way. However, most economists today use the term "inflation" to refer to a rise in the price level. An increase in the money supply may be called monetary inflation, to distinguish it from rising prices, which may also for clarity be called "price inflation" Economists generally agree that in the long run, inflation is caused by increases in the money supply.

It is important to distinguish the word 'inflation' conceptually, since it refers only to the general trend, not specific one. For example, if people buy much cucumber than tomatoes, which consequently become cheaper, it does not correspond to the inflation – it is a simple shift of tastes. It was easier to observe when currency was linked with the gold price. If new gold deposits were found. The prices on gold would become lower and prices-higher and vice versa.

There are many possible measures of price inflation. Most frequently, the term 'inflation' refers to a rise in a broad price index representing the overall price level for goods and services in the economy. The consumer price index, the personal consumption expenditures price index and the GDP deflator are some examples of broad price indices. However, 'inflation' may also be used to describe a rising price level within a narrower set of assets, goods or services within the economy, such as commodities , tangible assets, financial assets, services or labour. The Reuters-CRB Index (CCI), the Producer Price Index and Employment Cost Index are examples of narrow price indices used to measure price inflation in particular sector of the economy.

- **Objectives of the study** – The study covers the following objectives

1. To get the full acquaintance and concept of inflation
2. To know the current inflation in Indian economy
3. To know the causes and impact of inflation.

- **Research methodology** –

This study is based on secondary data. The data is collected from references books, research journals and websites.

- **Concept of Inflation**

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. Central banks attempt to limit inflation, and avoid deflation, in order to keep the economy running smoothly.

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- **Inflation in India**

The annualized inflation rate in India is 3.78% as of August 2015, as per the Indian Ministry of Statistics and Programme Implementation. This represents a modest reduction from the previous annual figure of 9.6% for June 2011. Inflation rates in India are usually quoted as changes in the Wholesale Price Index, for all commodities.

Many developing countries use changes in the Consumer Price Index (CPI) as their central measure of inflation. India used WPI (Wholesale Price Index) as the measure for inflation but new CPI(combined) is declared as the new standard for measuring inflation (April 2014) CPI numbers are typically measured monthly, and with a significant lag, making them unsuitable for policy use. Instead, India uses changes in the Consumer Price Index (CPI) to measure its rate of inflation.

- **Causes of Inflation**

There are many factors that can trigger inflationary pressure in an economy. The most important of these are:

1. **Demand-Pull Inflation** – The most important factor that certainly raises the price level is the rising quantity of money that is not accompanied by a proportionate increase in output. Increasing quantity of money in the hands of the people increases the aggregate demand for goods and services and if aggregate supply doesn't follow suit prices rise. This is a reflection of classic Demand and Supply Analysis where an increase in demand results in an increase in price. Hence demand-pull inflation: a rise in general prices caused by increasing aggregate demand for goods and services.

   In other words, people have more money to buy things, but there aren't enough of the things people want to buy. Therefore, according to the predictions of the Supply and Demand model, this will cause an increase in the price of the goods suffering a shortage. This is due to the scarcity of the goods relative to the increase in the amount of money in the hands of consumers who wish to purchase them.
2. **Cost-Push Inflation** - There are also supply-side factors that may trigger inflation. For example, if prices of some key inputs like oil rise, producers will have to either adjust output supply or translate the higher costs into higher output prices. When output declines because of cost pressure on producers there will be a shortage in output markets and prices will rise as a result, *ceteris paribus,* meaning all else constant. This is called cost-push inflation. Prices may also rise as a result of uncertainty about future market conditions.

- **Impacts of Inflation**

1. One risk of higher inflation is that it has a regressive effect on lower-income families and older people in society. This happen when prices for food and domestic utilities such as water and heating rises at a rapid rate
2. With millions of people facing a cut in their wages or at best a pay freeze, rising inflation leads to a fall in real incomes.
3. If interest rates on savings accounts are lower than the rate of inflation, then people who rely on interest from their savings will be poorer. Real interest rates for millions