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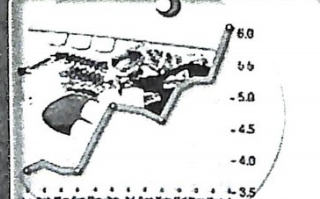

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Inflation in India: Causes And Impact

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- **Abstract:**

Inflation seemed to be a chronic problem in many parts of the world. There is a wide spread recognition that inflation results in inefficient resource allocation and hence reduces potential economic growth. Inflation imposes high cost on economies and societies; disproportionately hurts the poor and fixed income groups and creates uncertainty throughout the economy and undermines macroeconomic stability. High inflation has always penalized the poor more than the rich because the poor are less able to protect themselves against the consequences, and less able to hedge against the risks that high inflation poses. Lowering inflation therefore, directly benefits the low and fixed income groups.

Key Word: CPI, WPI, Monetary, Inflation etc.

- **Introduction**

"Inflation poses a serious threat to the growth momentum. Whatever be the cause, the fact remains that inflation is something which needs to be tackled with great urgency…"

[Dr. Manmohan Singh, Former Prime Minister of India, February 4, 2011, New Delhi]

Inflation has been the perennial problem world over since times immemorial. But the Indian economy had been experiencing periodic inflationary pressures even before the problem became endemic in the developed countries. Besides, the genre of inflation in Indian economy is different from that of the developed economies. Reason is that inflation in Indian economy has not been a monetary phenomenon at any time. The economy had been experiencing famines due to periodic crop failures, resulting in the high rise in prices of agricultural goods in general and food grains in particular. The rise in food prices are accounted by sudden shortages of supplies of essential goods. Thus, inflation does not emerge in all sectors simultaneously which occurs due to exceptional rise in money incomes. The demand pull inflation in Indian economy is, therefore, not the consequence of increase in demand due to excess supply of money in the economy; the excess demand is the result of supplies falling short of demand for good and other agricultural goods, even though monetary incomes and quantities of demand might have remained constant. **What is Inflation?**

Inflation is a sustained (continuous, uninterrupted) increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every rupee you own buys a smaller percentage of a good or service. The value of a rupee does not stay constant when there is inflation.

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1. Indicators of Measure of Inflation

Whole-sale price index (WPI) and Consumer price index (CPI) are the two primary measures of inflation.

- **Whole-sale price Index:** - WPI index reflects average price changes of goods that are bought and sold in the wholesale market. WPI in India is published by the Office of Economic Adviser, Ministry of Commerce and Industry. Further, the data for WPI is monitored and updated on a monthly basis taking into account all the 679 items that form the index. The various commodities taken into consideration for computing the WPI can be categorized into primary article, fuel and power, and manufactured goods.

- **Consumer Price Index**

  CPI measures price change from the perspective of the retail buyer. It is the real index for the common people. It reflects the actual inflation that is borne by the individual. CPI is designed to measure changes over time in the level of retail prices of selected goods and services on which consumers of a defined group spend their incomes. Till January 2012, in India there were only following four CPIs compiled and released on national level.

  - Industrial Workers (IW) (base 2001)
  - Agricultural Labourer (AL) (base 1986-87)
  - Rural Labourer (RL) (base 1986-87)
  - Urban Non-Manual Employees (UNME) (base 1984-85)

2. Inflation Status in India

Inflation in India for the month of May 2016 is 5.52%. Inflation in India went up to 5.39% year-on-year in April of 2016, accelerating from 4.83% in March. The rise was higher than market expectations of 5%. Food inflation also reached a three-month high. Inflation Rate in India averaged 7.74% from 2012 until 2016, reaching an all-time high of 11.16% in November of 2013 and a record low of 3.69% in July of 2015.

3. Causes for inflation:

Inflation is caused by a combination of four factors.

- Increasing supply of money.
- Decreasing Demand for money
- Decreasing/lack of supply of goods.
- Demand for goods goes up

4. Factors for rising prices

In general, the following factors are attributed to rise in prices:

- Area and production, which is dependent on weather and technology.
- Minimum Support Price
- Substitute product
- Seasonal Cycles
- Government policies
- Demand/consumption
- International prices

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5. **Impact of Inflation:**
   - Distract future plans
   - Paying higher taxes:
   - Real wages of employees:
   - Distorting investments:

In general, the following factors are attributed to rise in prices

Area and production, which is dependent in weather and technology, Demand and consumption, Minimum support price, Government policies, Substitute product, Seasonal cycle, International prices, Natural disaster, War, Decrease in natural commodities

6. **Inflation and its impact on the common man**

In India inflation is above 9% mark from last year. This has hit budgets of salaried middle class in the country. Inflation has hit the common man in so many ways, as follows;

- Purchasing power of the rupee falls- a Rs. 50 note, which could use to buy a kilogram of rice, will now fetch only half a kilogram
- Commodity wholesaler dealers, such as rice dealers' at mandis, may try and hoard essential commodities like food grains on hopes of reaping profits when prices increase further on dwindling supplies
- Fixed income groups will be hit the hardest because their salaries will not be revised to include the cost of living even as prices of items soar.
- Household as well as national savings drop because there is less money to save now as people use a greater part of their disposable income to pay for daily-use commodities
- Retail investors owning stocks of inflation-sensitive companies such as automobiles are likely to see the stock prices fall on low sales as people prefer to not spend money on "luxury" items, sticking instead to the "necessities
- Food and dairy products which are of daily use are rising above 12%. For a middle class person it constitutes about 30-40% of his monthly spends. Such an impact leaves him very less money for other activities.
- Impact on Emi-With inflation being on high almost all banks have increased rates by 1-2% on existing borrowers of home loan. As home loans are mostly taken at floating rates most customers have to pay more EMI per month from last 1-2 years.
- Petrol Prices-The Petrol or diesel prices have been increased so many times this year that travel or commuting budget has increased for most of the middle class.
- Credit Card usage- As customers are short of cash, more customers are using credit cards and getting into a debt trap. To pay these card dues they then take personal loan if the shortfall becomes higher thus one more EMI to pay.

7. **Measures of Inflation**

1. Consumer price index.
2. Producer price indices (PPIs).
3. Commodity price indices.
4. Core price indices.

8. Measures to Control Inflation;

1. Monetary policy is the most important tool for maintaining low inflation. Increased interest rates will help reduce the growth of Aggregate Demand in the economy. The slower growth will then lead to lower inflation. Higher interest rates reduce consumer spending .Increased interest rates increase the cost of borrowing, discouraging consumers from borrowing and spending..
2. Supply side policies; Supply side policies aim to increase long term competitiveness and productivity. Therefore, in the long run supply side policies can help reduce inflationary pressures.
3. Fiscal Policy; this is another demand side policy, similar in effect to Monetary Policy. To reduce inflationary pressures the government can increase tax and reduce government spending.
4. Exchange Rate Policy; It was felt that by keeping the value of the pound high, it would help reduce inflationary pressures.
5. Wage Control; Wage growth is a key factor in determining inflation. If wages increase quickly it causes high inflation. In the 1970s, there was a brief attempt at wage controls which tried to limit wage growth. However, it was effectively dropped because it was difficult to widely enforce.

9. Conclusions;

Inflation is affected badly the life of middle and poor class. Controlling inflation is needs tremendous, effective and long term policies of the government. Inflation has been properly been curbed or averted the world economy with experience of new face on employment policies and have a new breath on the standard of living around the globe.

Inflation in general and food price inflation in particular has been a persistent problem in India over the past few years. Price stability is crucial for sustainable growth structure and factors influencing food inflation, therefore it is critical for any rational policy decision to contain it within comfortable limits. It is essential that economic policies should be backed up with statistical information and an understanding of economic theory. Collective action from the world wide should be taken on inflation .making economic policies on this is just not easy but international coordination is important not just for achieving strong, sustainable and balanced growth but for maintaining enough liquidity in the economy.

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