

INFLATION

What is Inflation?

› Inflation refers to the rise in general price level in the economy over a period of time. It is measured on a year on year basis.

Types of Inflation (Rate-Wise)

Types of Inflation (Cause - Wise)



Creeping Inflation

› It is the mildest form of Inflation, also known as mild inflation or low inflation. In this, the rate of general price rise is low and varies between 2% and 3%.

Walking Inflation

› It is also called trolling inflation. When the rate of rising price is more than creeping inflation (i.e. 3-10%), then it is called walking inflation.



Galloping Inflation

› When inflation is more than 10% and up to 50%, it refers to galloping inflation.

Hyperinflation

› It is an extreme form of inflation where the price rise at an alarmingly high rate (i.e. more than 50% every month). It occurs when there is a large increase in money supply.



Demand - Pull Inflation

› It is caused by an increase in aggregate demand and consumption.



Structural Inflation

› It is also called 'supply shock inflation'. It occurs when the general prices rise like price of land, labour and raw materials.



Cost-Push Inflation

› In this, inflation persists for a longer period due to deficiencies existing in the economy such as backward agriculture sector (poor productivity), inefficient distribution and storage facilities.



Measurement of Inflation

Wholesale Price Index (WPI)

› WPI measures the change in wholesale prices on a monthly basis (previously it was weekly basis). Presently, Department of Industrial Policy & Promotion (DIPP) under Ministry of Commerce & Industry compiles and publishes WPI.

Consumer Price Index (CPI)

› CPI measures the change in retail prices on monthly basis. It includes both goods and services.

GDP Deflator

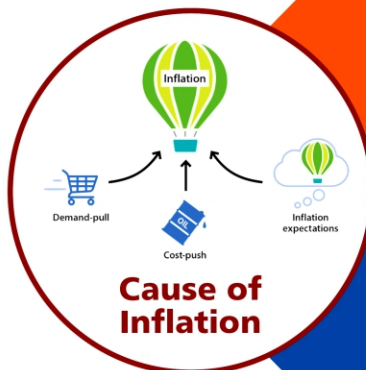
› It refers to the ratio between GDP at Current Prices and GDP at Constant Prices. If GDP deflator is 1, it implies no change in general price levels. If GDP deflator is > 1, it implies increase in general price levels.

Demand Side factors for Inflation

› Due to rise in non-development Government expenditure.

Supply Side factors for Inflation

› Due to erratic agriculture production
Hoarding of essential commodities by big farmers and wholesalers
Higher MSPs announced by the Government year after year



Measures to Check Inflation

Fiscal measures

- › By reducing private spending
- › By decreasing non-development government expenditure
- › By avoiding deficit financing

Monetary measures

› These measures are taken by the RBI (not GOI) to check inflation by controlling supply of money, and it consists of the following:

Quantitative measures

- › By selling government securities through Open Market Operation (OMO)
- › By increasing cash reserve ratio
- › By increasing statutory liquidity ratio (SLR)
- › By increasing Bank Rate
- › By increasing Repo Rate and Reserve Repo Rate

Administrative measures

- › Prevention of black marketing and prevention of hoarding
- › Banning export of constrained materials
- › Suspending future trading
- › Facilitating supply of goods and services in case of demand - pull inflation

Some Inflation related concept

Disinflation

› It shows the rate of change of inflation over time. In this case, the inflation rate is declining over time, but it remains positive.

Reflation

› It is a phenomenon when inflation returns after a spell of deflation, thereby indicating that the economic growth is back in the economy.

Deflation

› It is a decrease in general price levels of goods and services throughout an economy. In simple term there is more supply but less demand.

Stagflation

› It emerges when both stagnation (i.e. zero economic growth) and inflation occur simultaneously. It is a period of no growth, relatively high unemployment and rise in prices of goods and a decline in GDP.

Skewflation

› It occurs when there is inflation in some commodities and deflation in other such as a rising cost of living coupled with falling asset prices.