Inflationary Measure and Possible Impact

ANJALI GIRI[1], PIYUSH PARMAR[2]
[1, 2] *AIMS Institute of Management Studies.*

***Abstract-** India has experience persistently high inflation in recent years, despite a period of below – trend economic growth. As a result, controlling inflation has become a key objective for policy makers. The two main indicators of inflation in India are the whole sale price (WPI) and the consumer price index (CPI).*

***Indexed Terms-** Inflationary /inflationary measure, possibly impact, helping tools, suggestion, and acknowledgement.*

I. INTRODUCTION

Inflation is the quantitative measure of the rate as which the average price level of the basket of selected goods and services in an economy increase over a period of the time. it is the constant rise in the general level of the price where a unit of currency buys less than it did in prior periods. Often express as a percentage, inflation indicates a decrease in the purchasing. Power of a nation's currency.

Inflation rate in India was 5.5% as of May 2019, as per the Indian Ministry of Statistics and Program 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 (WPI), for all commodities. Many developing countries use changes in the consumer price index (CPI) as their central measure of inflation. In India, CPI (combined) is declared as the new standard for measuring inflation. The WPI measures the price of a representative basket of wholesale goods. In India, this basket is composed of three groups: Primary Articles (22.62% of total weight), Fuel and Power (13.15%) and Manufactured Products (64.23%). Food Articles from the Primary Articles Group account for 15.26% of the total weight. The most important components of the Manufactured Products (Food products 19.12%) Group are Chemicals and Chemical products (12%); Basic Metals, Alloys and Metal Products (10.8%); Machinery and Machine Tools (8.9%); Textiles (7.3%) and Transport, Equipment and Parts (5.2%). WPI numbers were typically measured weekly by the Ministry of Commerce and Industry.

II. OVERVIEW

Monthly inflation rate in India was -0.33% in December 2018. That is 0.33 less than it was in November 2018 and 0.36 more than in December 2017. At the same time, 2018 year to date inflation rate is 5.24% and year over year inflation rate is 5.24%.

In 2018 India ranks #14 in the world by yearly inflation rate.

Inflation in India is calculated based on the Consumer Prices Index for Industrial Workers (CPI-IW). Consumer Prices are representing the prices that the end consumer has to pay for the product or service together with all taxes and fees.

- Current inflation rate

Inflation rate in December 2018:
(month over month, MOM) -0.33%
Inflation rate year to date, YTD: 5.24%
Insufflation rate in November 2018, MOM: 0.00%
Inflation rate in December 2017, MOM: -0.69%

Inflation rate in December 2017, YTD: 4.00%
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Compare with the previous and next years
Compare with another country:
2. Possible impact:

- Erodes Purchasing Power

This first effect of inflation is really just a different way of stating what it is. Inflation is a decrease in the purchasing power of currency due to a rise in prices across the economy. Within living memory, the average price of a cup of coffee was a dime. Today the price is closer to two dollars.

- Encourages Spending, Investing

A predictable response to declining purchasing power is to buy now, rather than later. Cash will only lose value, so it is better to get your shopping out of the way and stock up on things that probably won't lose value.

- Causes More Inflation

Unfortunately, the urge to spend and invest in the face of inflation tends to boost inflation in turn, creating a potentially catastrophic feedback loop. As people and businesses spend more quickly in an effort to reduce the time, they hold their depreciating currency, the economy finds itself awash in cash no one particularly wants. In other words, the supply of money outstrips the demand, and the price of money the purchasing power of currency falls at an ever-faster rate.

- Raises the Cost of Borrowing

As these examples of hyperinflation show, states have a powerful incentive to keep price rises in check. For the past century in the U.S., the approach has been to manage inflation using monetary policy. To do so, the Federal Reserve (the U.S. central bank) relies on the relationship between inflation and interest rates. If interest rates are low, companies and individuals can borrow cheaply to start a business, earn a degree, hire new workers, or buy a shiny new boat. In other words, low rates encourage spending and investing, which generally stoke inflation in turn.

- Lowers the Cost of Borrowing

When there is no central bank, or when central bankers are beholden to elected politicians, inflation will generally lower borrowing costs.

- Reduces Unemployment

There is some evidence that inflation can push down unemployment. Wages tend to be sticky, meaning that they change slowly in response to economic shifts. John Maynard Keynes theorized that the Great Depression resulted in part from wages' downward stickiness. Unemployment surged because workers resisted pay cuts and were fired instead (the ultimate pay cut).

- Reduces Employment, Growth

Wistful talk about inflation's benefits is likely to sound strange to those who remember the economic woes of the 1970s. In today's context of low growth, high unemployment (in Europe) and menacing deflation, there are reasons think a healthy rise in prices – 2% or even 3% per year – would do better than harm. On the other hand, when growth is slow, unemployment is high and inflation is in the double digits, you have what a British Tory MP in 1965 dubbed "stagflation."

- Weakens or Strengthens Currency

High inflation is usually associated with a slumping exchange rate, though this is generally a case of the weaker currency leading to inflation, not the other way around. Economies that import significant amounts of goods and services – which, for now, is just about every economy – must pay more for these imports in local-currency terms when their currencies fall against those of their trading partners.

- Increases Growth

Unless there is an attentive central bank on hand to push up interest rates, inflation discourages saving, since the purchasing power of deposits erodes over time. That prospect gives consumers and businesses an incentive to spend or invest. At least in the short term, the boost to spending and investment leads to economic growth. By the same token, inflation's negative correlation with unemployment implies a tendency to put more people to work, spurring growth.

III. TOOLS

There are the different measures tools inflationary-
How these tools will help following:

1. Monetary Measures:

The government of a country takes several measures and formulates policies to control economic activities. Monetary policy is one of the most commonly used measures taken by the government to control inflation.

The monetary policy of a country involves the following:

(a) Rise in Bank Rate:

In monetary policy, the central bank increases rate of interest on borrowings for commercial banks. As a result, commercial banks increase their rate of interests on credit for the public. In such a situation, individuals prefer to save money instead of investing in new ventures.

This would reduce money supply in the market, which, in turn, controls inflation. Apart from this, the central bank reduces the credit creation capacity of commercial banks to control inflation.

The monetary policy of a country involves the following:

(b) Rise in Bank Rate:

Refers to one of the most widely used measure taken by the central bank to control inflation.

i. Making the borrowing of money costlier:

Refers to the fact that with the rise in the bank rate by the central bank increases the interest rate on loans and advances by commercial banks. This makes the borrowing of money expensive for general public.

ii. Creating adverse situations for businesses:

Implies that increase in bank rate has a psychological impact on some of the businesspersons. They consider this situation adverse for carrying out their business activities. Therefore, they reduce their spending and investment.

(c) Direct Control on Credit Creation:

Constitutes the major part of monetary policy.

i. Performing Open Market Operations (OMO):

Refers to one of the important methods used by the central bank to reduce the credit creation capacity of commercial banks. The central bank issues government securities to commercial banks and certain private businesses.

Involves increase or decrease in reserve ratios by the central bank to reduce the credit creation capacity of commercial banks. For example, when the central bank needs to reduce the credit creation capacity of commercial banks, it increases Cash Reserve Ratio (CRR).

2. Fiscal Measures:

Apart from monetary policy, the government also uses fiscal measures to control inflation. The two main components of fiscal policy are government revenue and government expenditure. In fiscal policy, the government controls inflation either by reducing private spending or by decreasing government expenditure, or by using both.

For example, if direct taxes on profits increase, the total disposable income would reduce. As a result, the total spending of individuals decreases, which, in turn, reduces money supply in the market. Therefore, at the time of inflation, the government reduces its expenditure and increases taxes for dropping private spending.

3. Price Control:

Another method for ceasing inflation is preventing any further rise in the prices of goods and services. In this method, inflation is suppressed by price control, but cannot be controlled for the long term. In such a case, the basic inflationary pressure in the economy is not exhibited in the form of rise in prices for a short time.

Such inflation is termed as suppressed inflation.
The historical evidences have shown that price control alone cannot control inflation, but only reduces the extent of inflation. For example, at the time of wars,

the government of different countries-imposed price controls to prevent any further rise in the prices.

IV. SUGGESTIONS

The primary evidence of inflation is an excess of spending relative to production. The basic cause of excess, whatever they may be, need not concern us here.in considering the possibilities of control of inflation, it is coinvent to break down spending into several broad categories

CONCLUSION

The Corona virus has break down Indian businesses which is affecting the country's economy worst. The organisations/ companies are still helping the nation by many activities and trying to market their brands in this crisis

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APPENDIX

Diagram 1.1
Diagram 1.2
Diagram 1.3

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