

INFLATION



- Inflation
- Deflation
- Reflation
- Disinflation

A rise in general level of prices may be caused by

1. An increase in the money supply
2. A decrease in the aggregate level of output
3. An increase in the effective demand

Select the correct answer using the codes given below.

- (A) 1 only (B) 1 and 2 only (C) 2 and 3 only (D) 1, 2 and 3

A rapid increase in the rate of inflation is sometimes attributed to the “base effect”.

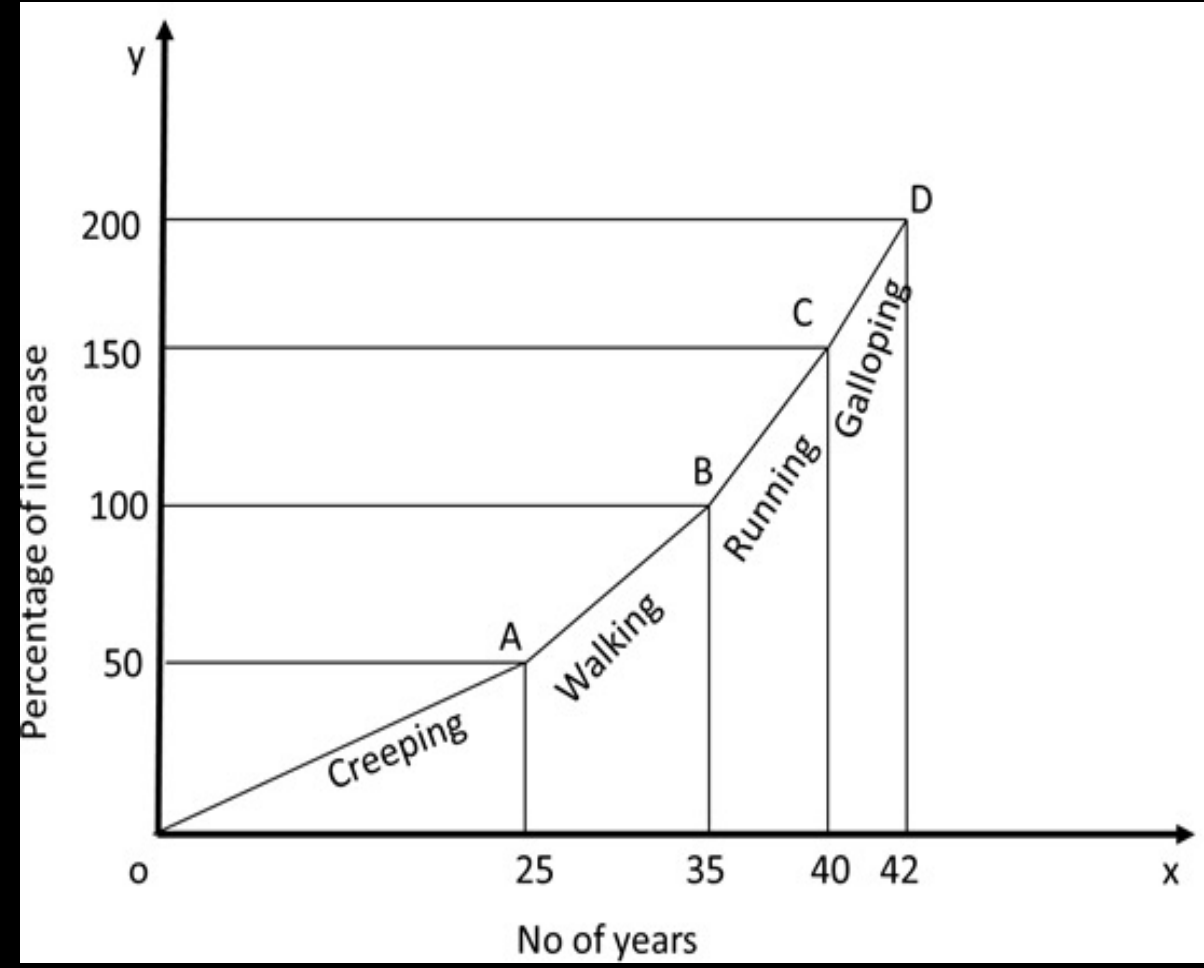
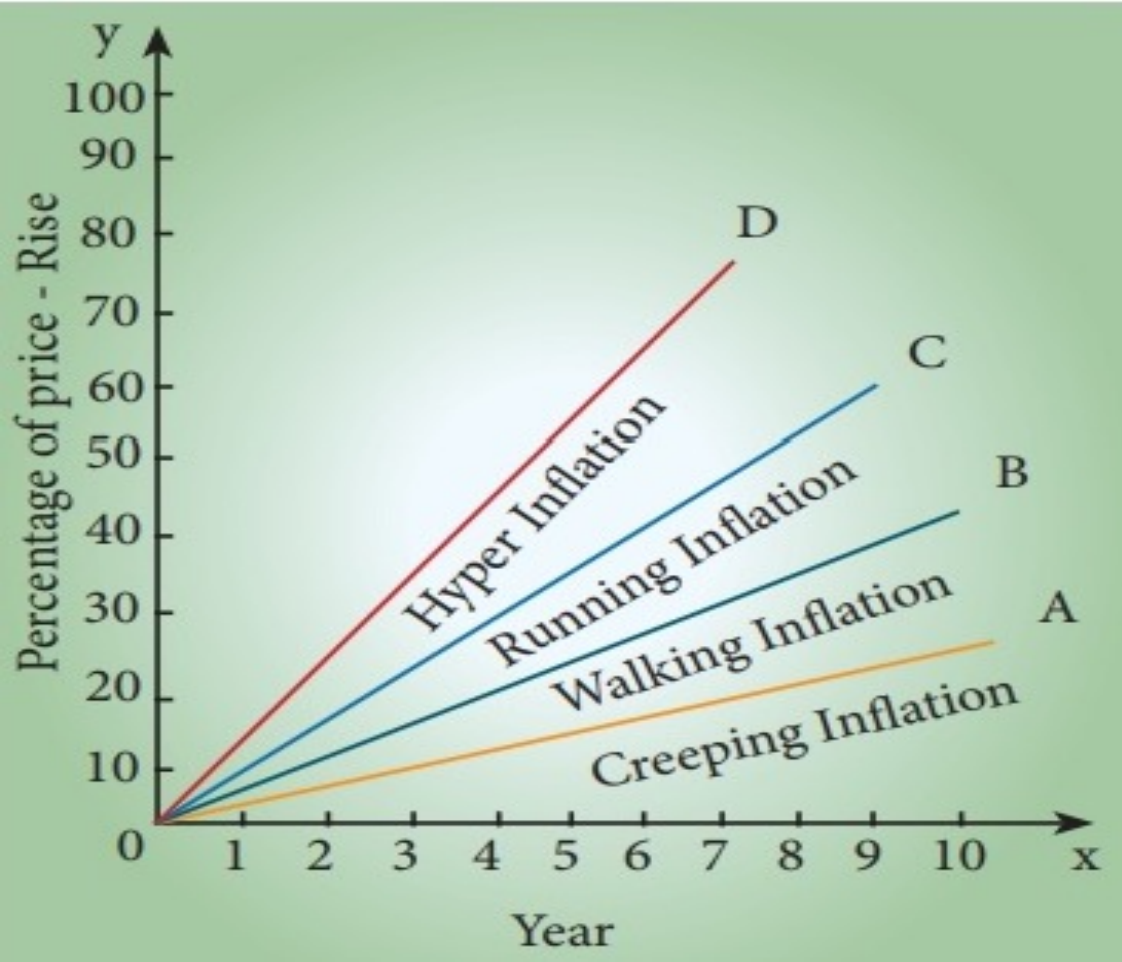
What is “base effect”?

(A) It is the impact of drastic deficiency in supply due to failure of crops.

(B) It is the impact of the surge in demand due to rapid economic growth.

(C) It is the impact of the price levels of previous year on the calculation of inflation rate.

(D) None of the statements (A), (B) and (C) given above is correct in this context.





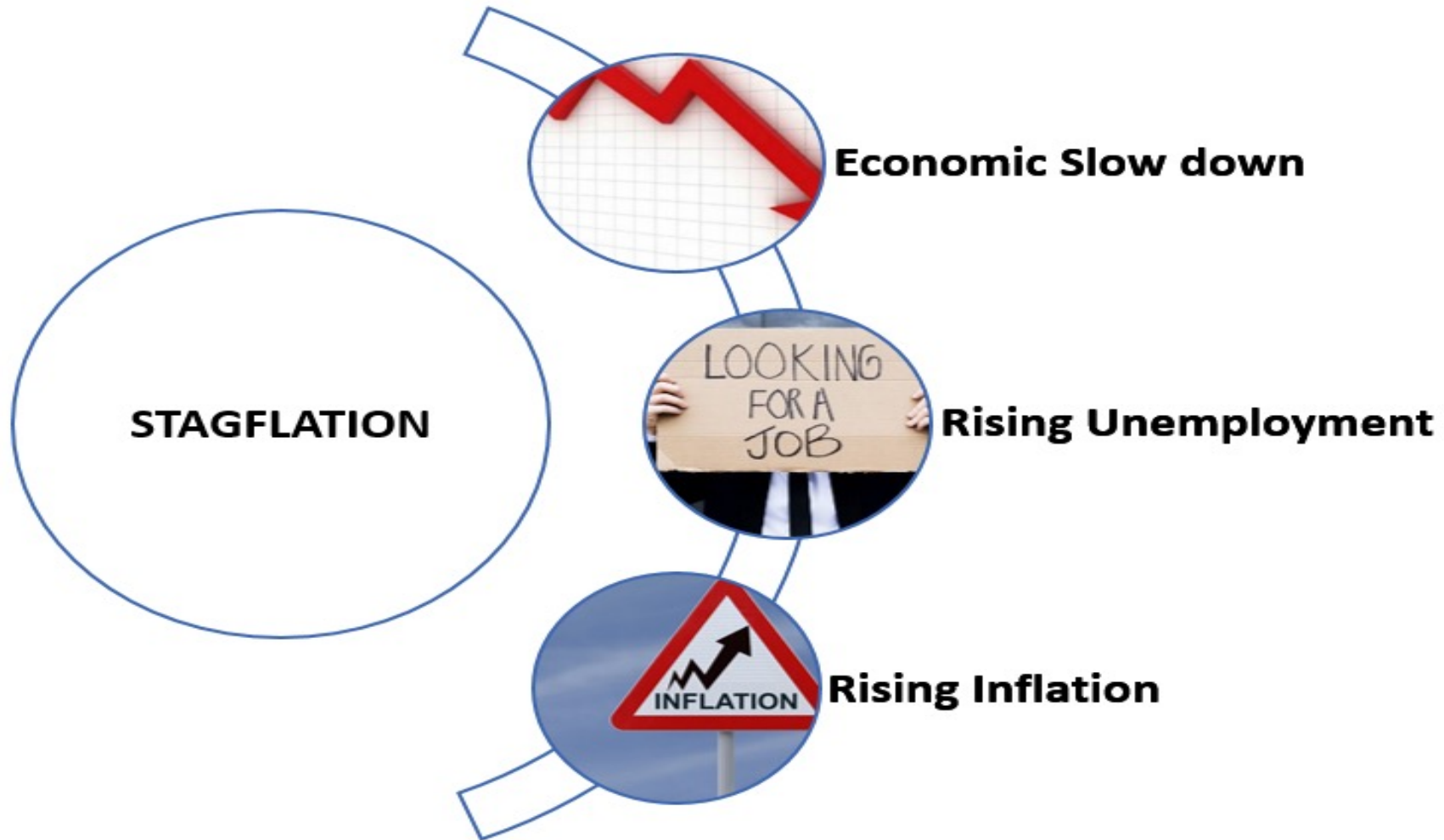
Inflation

VS



Deflation





What Causes Inflation?

Inflation is the overall general increase in the price of goods and services in an economy. At its root, inflation is typically caused by the rising cost of goods and services.

Demand-Pull Inflation



When the demand for goods and services within the economy outweighs the economy's ability to produce these goods and services

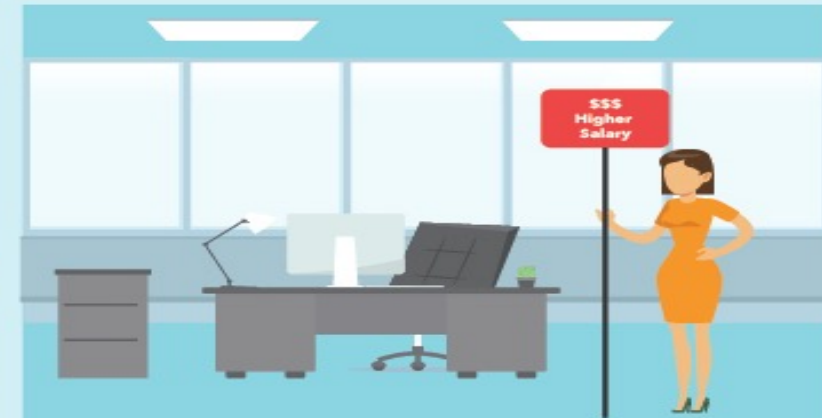
Cost-Push Inflation



When an increase in the cost of the production of goods and services increases prices.

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Built-In Inflation



When workers expect their salaries or wages to increase when prices of goods and services increase to help maintain their living costs

Steps taken to contain inflation

- Banning the export
- Imposition of stock limit
- Easing of restrictions on imports
- Price Stabilization Fund (PSF) Scheme
- Creation of buffer stock of pulses
- States/UTs are also being encouraged to set up their own State level PSF
- Government of India has entered into a MoU with Mozambique to ensure assured supply of pulses (Tur and other pulses) in India

With reference to demand-pull inflation can be caused by increased by which of the following?

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing wages
4. Higher purchasing power
5. Rising interest rates

Select the correct answer using the code given below,

- (a) 1, 2 and 4 only
- (b) 3, 4 and 5 only
- (c) 1, 2, 3 and 5 only
- (d) 1, 2, 3, 4 and 5

Which one of the following is likely to be the most inflationary in its effects?

- (a) Repayment of public debt
- (b) Borrowing from the public to finance a budget deficit
- (c) Borrowing from the banks to finance a budget deficit
- (d) Creation of new money to finance a budget deficit

Value of Money



Impact on Households



**Financial
Institution**



Impact on Financial Institutions and Markets

Consider the following statements:

1. Inflation benefits the debtors.
2. Inflation benefits the bondholders.

Which of the statements given above is/are correct?

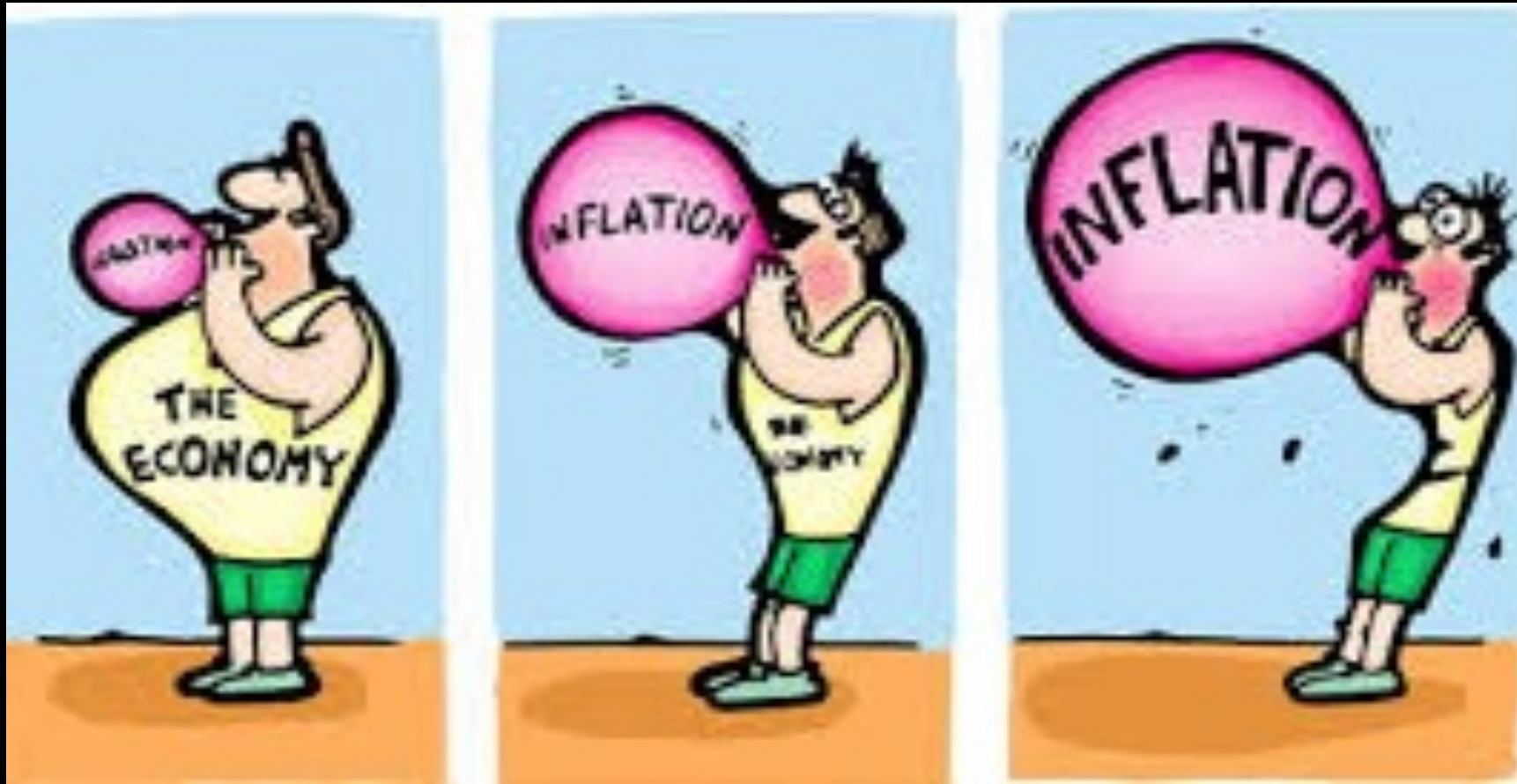
(A) 1 only (B) 2 only (C) Both 1 and 2 (D) Neither 1 nor 2

Impact on Government



Impact on Trade

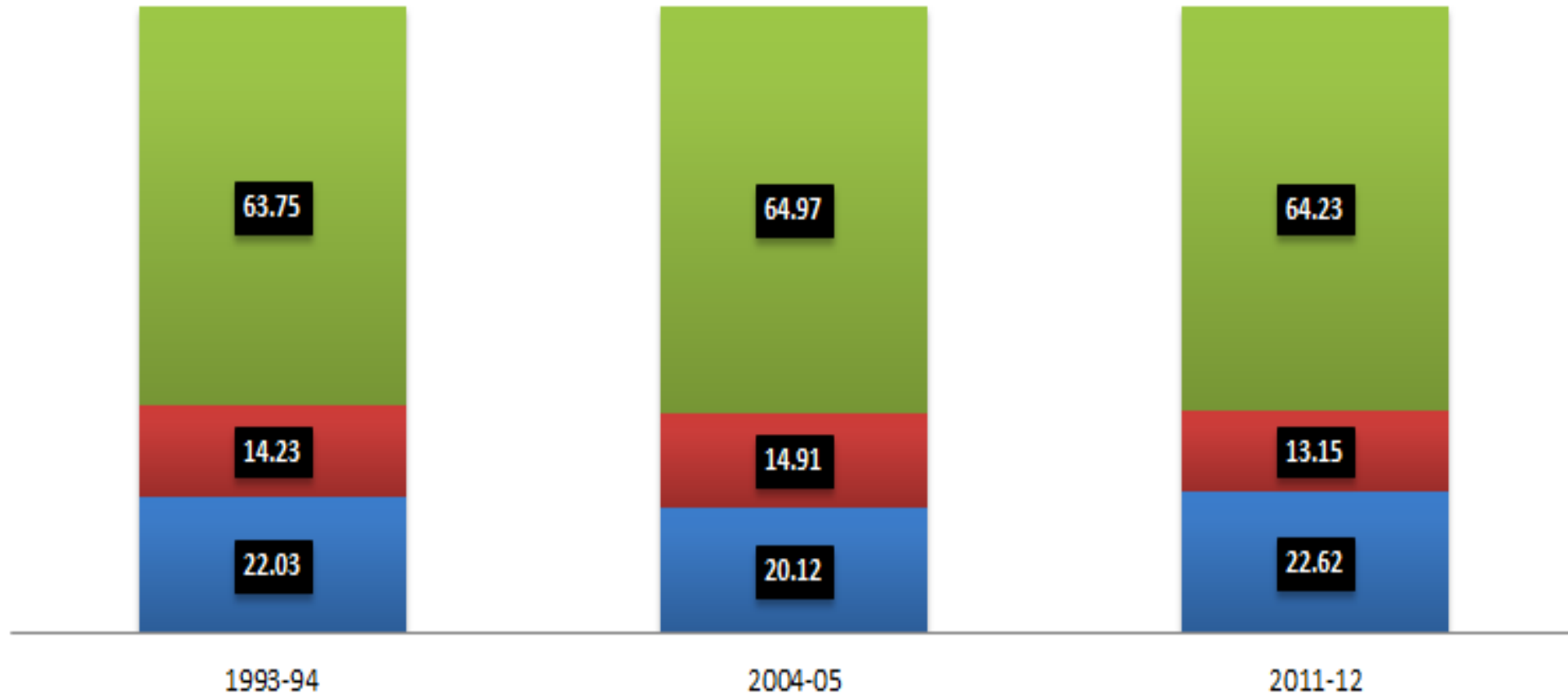




$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

Weighting Structure of WPI

■ Primary Articles ■ Fuel & Power ■ Manufactured Products



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Major Groups

Weight

Food and beverages

45.86

Pan, tobacco and intoxicants

2.38

Clothing & footwear

6.53

Housing

10.07

Fuel & light

6.84

Misc. group

28.32

*General**100.00*



Government of India
Ministry of Statistics and
Programme Implementation

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Figure 2: Trends in CPI-C Headline, Core and Food inflation

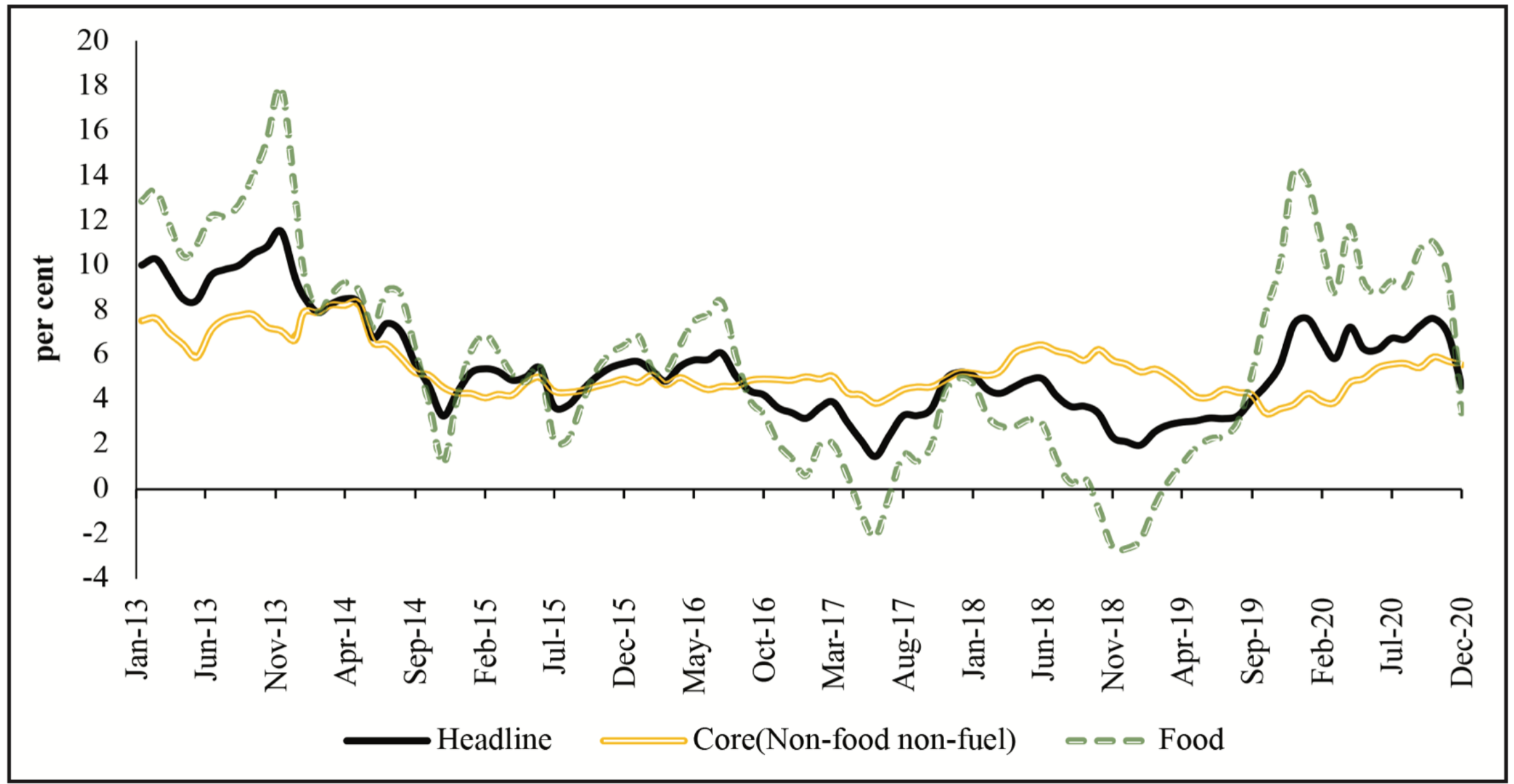
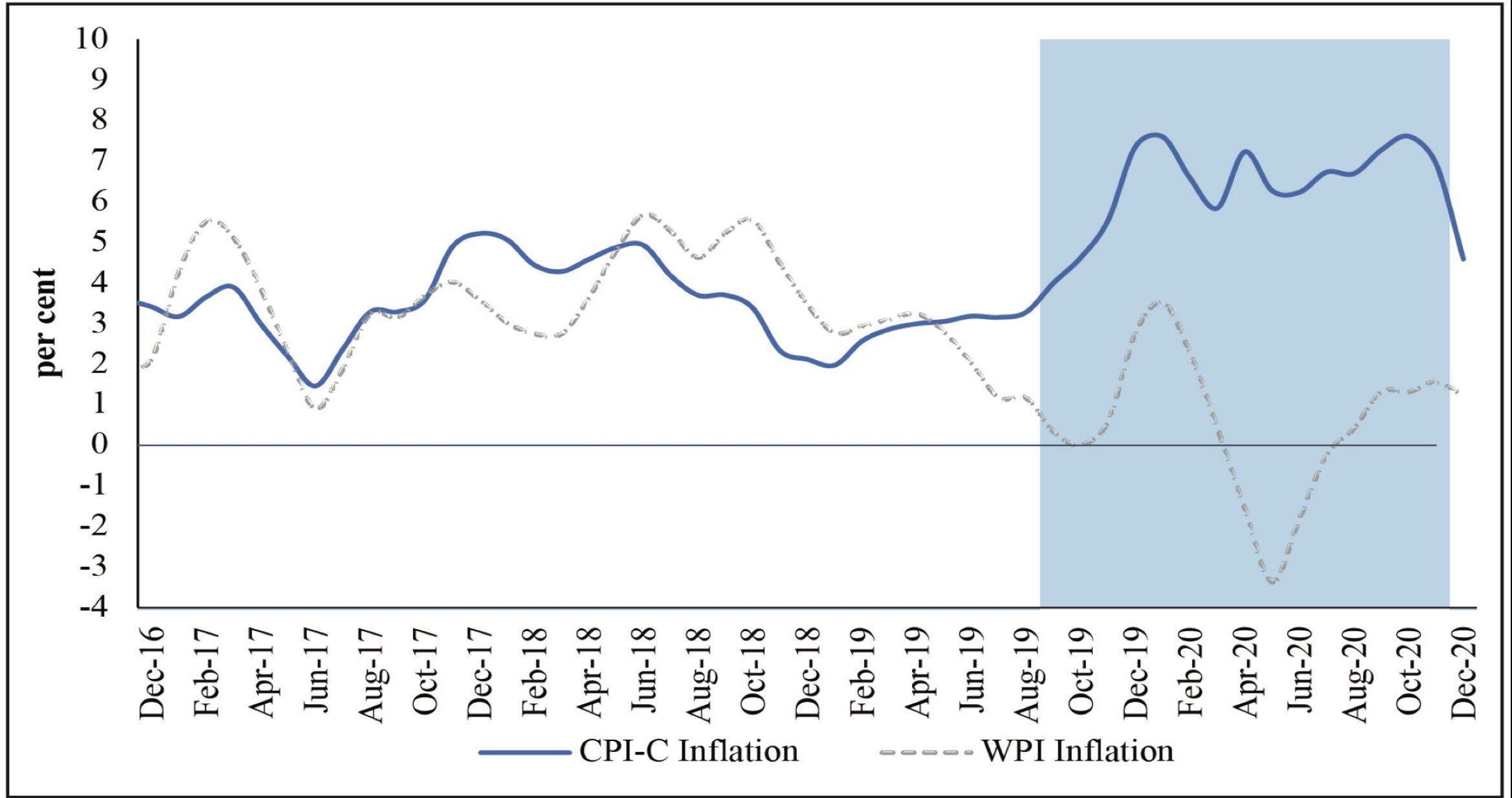


Figure 19: CPI-C and WPI Inflation



- Retail Inflation
- Headline Inflation
- Core Inflation
- Skewflation
- Shrinkflation

Consider the following statements :

- (1) The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
- (2) The WPI does not capture changes in the prices of services, which CPI does.
- (3) The Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 2 only
- (c) 3 only
- (d) 1, 2 and 3

Which of the following brings out the Consumer Price Index Number for Industrial Workers?

- (A) The Reserve Bank of India
- (B) The Department of Economic Affairs
- (C) The Labor Bureau
- (D) The Department of Personnel and Training



Producer
Price
Index

Service Price Index



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1. Railway Service Price Index
2. Postal Service Price Index
3. Banking Service Price Index
4. Air Service Price Index
5. Port Service Price Index
6. Insurance Business Service Price Index
7. Telecom(Cellular) Service Price Index
8. Securities Transaction Service Price Index

- **Index of industrial Production(IIP)** - *is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period.*
- **Purchasing Managers Index(PMI)**



Thank You

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