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A Review on Inflation in India-Causes, its Impacts, Trends and Measures to Control

KEYWORDS: Consumer price Index, GDP deflatar, monetary policy,Inflation.

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ABSTRACT *Growth with stability is essential condition for attaining sustainable economic development. Fluctuations in prices create an atmosphere of uncertainty which is not conducive to development activity. Inflations mean paying more for goods than paying earlier. Not only essential goods see a hike, non-essential items like cigarettes etc would also cost more. The price of everything goes up over time and this phenomenon is called inflation.*

The rate at which the prices of everything go up is called the "rate of inflation". For example, if the price of something is Rs.50 this year and next year the price becomes approximately Rs.54 then the rate of inflation is 4%. If the price of something is Rs.80 then after a year with a rate of inflation of 4% the price go up to (80 x 1.04) = 83.2.The present article made an attempt to assess the issues relating to inflation such as relationship between Money supply and inflation, impact of inflation in general and particularly on common man, Measures of Inflation, Food inflation. Trends in inflation (CPI) over a period of time and also on current status of inflation in India. The study examines that increasing price level could leads to fall in Purchasing power of the rupee, commuting budget has increased for most of the middle class. 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. However, at present WPI inflation rose to a five-month high of 6.01 per cent in May from 5.20 per cent in the previous month mainly because of higher prices of food items. Inflation is affected badly the life of middle and poor class. Finally it concludes that, 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.

Introduction;
Growth with stability is essential condition for attaining sustainable economic development. Fluctuations in prices create an atmosphere of uncertainty which is not conducive to development activity. Inflations mean paying more for goods than paying earlier. Not only essential goods see a hike, non-essential items like cigarettes etc would also cost more. The price of everything goes up over time and this phenomenon is called inflation. The rate at which the prices of everything go up is called the “rate of inflation”. For example, if the price of something is Rs.50 this year and next year the price becomes approximately Rs.54 then the rate of inflation is 4%. If the price of something is Rs.80 then after a year with a rate of inflation of 4% the price go up to (80 x 1.04) = 83.2The rents have shot high, necessary commodities cost more than usual and thereby savings is affected. In direct words Inflation brings no gain to common man except for few hoarders and investors. Inflation enriches fewer while impoverishing more. They say a little bit of inflation is good for any economy so that business transaction takes place otherwise there would not be any growth in economy. The growth rate has fallen as predicted by many research firms. For the service classes it is a shot on the arm. Whatever hike in salary they might have bargained is outdone by the hike in prices in essential items. The cost for essential items should always be less but it is almost as high as luxury items or non-essential items.

The Optimal Inflation Rate
It arises as the basis theme in deciding an adequate monetary policy. There are two debatable proportions for an effective inflation, whether it should be in the range of 1-3 per-cents as the inflation rate that persists in the industrialized economy or should it be in the range of 6-7 per-cents. While deciding on the elaborate inflation rate certain problems occur regarding its measurement. The measurement bias has often calculated an inflation rate that is comparatively more than in nature. Secondly, there often arises a problem when the quality improvements in the product are in need to be captured out; hence it affects the price index. The consumer preference for cheaper goods affects the consumption basket at costs, for the increased expenditure on the cheaper goods takes time for the increased weight and measuring inflation. The [[Boskin Commission]] has measured 1.1 per cent of the increased inflation in USA every-annum. The commission points out for the developed countries comprehensive study on inflation to be fairly low.

Money supply and inflation
An increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and rise in prices: it may be caused by an increase in the volume of paper money issued or of gold mined, or a relative increase in expenditures as when the supply of goods fails to meet the demand. This definition includes some of the basic economics of inflation and would seem to indicate that inflation is not defined as the increase in prices but as the increase in the supply of money that causes the increase in prices i.e. inflation is a cause rather than an effect. A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services. In this definition, inflation would appear to be the consequence or result (rising prices) rather than the cause. A general and progressive increase in prices; “in inflation everything gets more valuable except money”

The Quantitative Easing by the central banks with the effect of an increased money supply in an economy often helps to increase or moderate inflationary targets. There is a puzzle formation between low-rate of [[inflation]] and a

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high growth of money supply. When the current rate of [[inflation]] is low, a high worth of money supply warrants the tightening of liquidity and an increased interest rate for a moderate aggregate demand and the avoidance of any potential problems. Further, in case of a low output a tightened [[monetary policy]] would affect the production in a much more severe manner. The supply shocks have known to play a dominant role in the regard of monetary policy. The bumper harvest in 1998-99 with a buffer yield in wheat, sugarcane, and pulses had led to an early supply condition further driving their prices from what were they in the last year. The increased import competition since 1991 with the [[trade liberalization]] in place have widely contributed to the reduced manufacturing competition with a cheaper agricultural raw materials and the fabric industry. These cost-saving driven technologies have often helped to drive a low-inflation rate. The normal growth cycles accompanied with the international price pressures has several times being characterized by domestic uncertainties.

Causes for inflation:
Inflation is caused by a combination of four factors.
1. Increasing supply of money.
2. Decreasing/lack of supply of goods.
3. Decreasing Demand for money
4. Demand for goods goes up

Impact of Inflation:
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..

1. Distract future plans:
Inflation has an impact on our plans for the future. When saving for retirement, college, a house, or simply budgeting for the next 12 months, the cost of goods and services have a direct impact on your goals. Due to inflation, your goals may cost more in the future than today. A meal that costs $10 today may cost $10.36 in one year. A car that costs $10,000 today may cost $10,359 in one year, and almost $12,000 in only 5 years. So, when planning for the future, you must consider inflation and the effect it may have on your goals.

2. Real wages of employees:
Many people dislike inflation because they feel it makes it easier for the government, employers, financial institutions, and others to deceive them. One of the most important things about inflation is that the confusion caused by price changes enables people to play tricks on employees, at their expense." Thus, some employers may "forget" to raise their employees' wages as much as inflation thereby giving them a real pay cut. There is evidence that people do get fooled, at least initially, about their real wages. People seem to base their sense of satisfaction on nominal earnings rather than real earnings.

3. Paying higher taxes:
Inflation creates other opportunities for sophisticated institutions to unfairly take advantage of the average individual, in many people's minds. Inflation can increase the complexity of evaluating financial assets, from CDs and insurance policies to stocks and bonds. This shifts the distribution of power in the financial marketplace to the more sophisticated and knowledgeable actors to the detriment of the average person, in this view. Thus, the government might "forget" to change the tax brackets after an inflationary episode, so the average person would end up paying higher taxes

4. Distorting investments:
Economists tend to emphasize that inflation can do economic damage by distorting investment and consumption decisions. Distortions results from households' and businesses' uncertainty about inflation's future course. When inflation is stable, people are more likely to have roughly the same anticipation of its future level. When inflation is highly volatile, however, people have different guesses. Most turn out to be wrong. Inadvertently, some end up winners and other losers.

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 leave 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.

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

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Other common measures of inflation are:

- GDP deflator

$$GDPDeflator = \frac{NominalGDP}{RealGDP}$$

- Regional inflation
- Historical inflation
- Asset price inflation

Historical statistics on Inflation in India (CPI) in different years.

Current inflation India (CPI India) – the inflation is based upon the Indian consumer price index. The index is a measure of the average price which consumers spend on a market-based "basket" of goods and services. Inflation based upon the consumer price index (CPI) is the main inflation indicator in most of the countries. The annual inflation by year for India - comparing the December CPI to the December CPI of the year before and the average inflation by year for India presented in the below table 1.

YEARS (Dec to Dec)	Annual inflation	YEARS (Dec to Dec)	Annual inflation
1958	5.15%	2005	5.57%
1963	6.87%	2006	6.53%
1968	-2.23%	2007	5.51%
1973	23.81%	2008	9.70%
1978	1.51%	2009	14.97
1983	12.46%	2010	9.47%
1988	8.79%	2011	6.49%
1991	13.07%	2012	11.17%
1996	10.41%	2013	9.13%
2001	5.16%	As on June 2014	6.49 %

en.wikipedia.org/wiki/Inflation_in_India

Food inflation

India's protectionist policies on food prices, though reducing volatility, have resulted in an inordinately rapid increase in price levels. While world food prices, following several ups and downs, have nearly doubled from 1990 to 2013, Indian food prices have steadily increased six-fold over the same period. A comparison of the Food and Agriculture Organization's food price index and India's wholesale price index (WPI) shows the difference in growth rates of Indian and world food prices quite distinctly. The FAO's index shows world food prices have risen almost 96% from 1990 to 2013. The WPI for food increased a whopping 514% over the same period. India's policy of raising import tariffs in times of surplus and implementing export bans during shortages has resulted in a closed economy for food. While it is a good thing this has protected India from volatility in world food prices, such a policy has likely contributed to the rapid rise in domestic food prices seen over the last decade, according to Bharat Ramaswami, professor at the Indian Statistical Institute and expert on food prices. Food grains, which have the highest weightage while calculating the WPI, have moved in more or less the same manner as the overall WPI for food. While world food grain prices have increased 2.25 times from 1990 to 2013, Indian prices have increased almost six-fold. Periodic hikes of the procurement price set by the government have also probably contributed to this rapid rise in food grain prices

Current Inflation scenario in India

The consumer price index in July increased 1.77% over the previous month, coming in above the 0.93% rise recorded in June. July's monthly rise was the strongest expansion on record. Annual CPI inflation edged up from 7.5% in June to 8.0% in July. June's print had marked the lowest level since the country started keeping records in January 2012. The wholesale price index (WPI) in July jumped 1.10% over the previous month. The reading, which was more than double the 0.50% rise seen in June, reflected higher prices for primary articles (mainly foodstuffs).Wholesale prices in July increased 5.2% over the same month last year and came in a notch above market expectations of a 5.1% rise. July's result was lower than the 5.4% increase observed in June, and marked the second consecutive annual moderation. Annual average WPI inflation inched down from the 6.2% tallied in June to 6.1%. Despite the deceleration in wholesale price inflation, most analysts continue to see risks to the inflation outlook due to forecasts for a milder monsoon season.

WPI inflation rose to a five-month high of 6.01 per cent in May due to higher prices of food items. Headline WPI (wholesale price index) inflation is expected to moderate by the end of 2014. However, risks to the outlook stems from possible sub-normal monsoon and higher crude oil prices (on account of the crisis in Iraq)," the Economic Surveys inflation eases, it is expected that the RBI would adopt a more accommodative stance and bring down interest rate. "The monetary management challenge will also be helped by fiscal consolidation and addressing of supply side constraints that exacerbate food inflation. All these factors, in tandem, are expected to create room for monetary easing later this fiscal year.

Food inflation, however, remained stubbornly high during 2013-14, reaching a peak of 11.95 per cent in third quarter According to economic survey of India highlights that, the reasons, for high inflation, particularly food inflation, was the result of structural as well as seasonal factors. Contribution of the commodity sub-groups, fruits and vegetables, as well as egg, meat and fish to the food inflation has been very high, it said. However, inflation in Non Food Manufactured Product (WPI core) has remained benign throughout the year, with average inflation moderated to four year low of 2.9 per cent in 2013-14, which indicates that underlying pressures of broad-based inflation have somewhat eased, .

Table -2Inflation Rate (CPI, annual variation in %)

2009	2010	2011	2012	2013
12.2	10.6	8.4	10.2	9.5

Source: Reserve Bank of India Focus Economics calculations

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

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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. This will reduce AD.
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 will cause 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.

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.

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