

Inflation - Financial Awareness Notes in PDF

Financial Awareness is important in today's day and age. You simply must know what is and what can affect you and your family's financial security. Are prices going to rise? Do you have to start saving for retirement as soon as you join the workforce? Is this government going to raise taxes? No wonder Financial Awareness has gained prominence in banking exams like SBI PO and SBI Clerk. Let us take now take a look at Inflation and what it means in the Indian context. You can even download these Financial Awareness notes on Inflation in PDF format.

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.

Deflation is the opposite of inflation i.e. general decline in prices. It is generally associated with contracting economy i.e. recession and is much more dangerous than inflation. A small inflation is, generally, an indicator of a healthy economy.

Causes of Inflation

Inflation is a sustained rise in the general price level. Given below are some of the reasons of inflation:



- A rise in the rate of VAT (Value Added Tax) is a cause of increased domestic inflation in the short term. This is because it increases a firm's production costs.
- Inflation can also come from external sources. For example, a sustained rise in the price of crude oil or other imported commodities, foodstuffs and beverages.
- Fluctuations in the exchange rate can also affect inflation. For example, a fall in the value of the pound against other currencies might cause higher import prices for items such as foodstuffs from Western Europe or technology supplies from the United States – which feeds through directly or indirectly into the consumer price index.

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.

Do the Monsoons have any Effect on Inflation?

The rain gods play a small role, if any, in influencing the prices of food items. In fact, there has been little correlation between poor monsoons and food prices in India. Official data for the past 17 years indicates that insufficient monsoons have not had a parallel or lagged impact on production of food grains in the country. On the contrary, production has been rising steadily owing to the improved irrigation system and better farm yield.

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