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Inflation in India for SSC & Bank Exams - GK Notes as PDF

General Knowledge is an important topic asked in various SSC, Banking and Government Exams like SSC CGL, SSC CHSL, IBPS PO, IBPS Clerk, SBI PO, RBI Assistant, etc. It requires you to stay updated about various terminologies and events. Here's our new post on Inflation in India for SSC, Banking & other Government Exams that will add great deal to your knowledge on General Knowledge (Financial Awareness). This will help you to know about the types, effects and different measures to control inflation in India and much more.

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Inflation means a persistent rise in the price of goods and services. **Inflation reduces the purchasing power of money.** It hurts the poor more as a greater proportion of their incomes are needed to pay their consumption. Inflation:

- Reduces savings;
- Pushes up interest rates;
- Dampens investment;
- Leads to depreciation of currency, thus making imports costlier.

Inflation in India for SSC - Types

Depending upon the rate of growth of prices, inflation can be of the following types:

Creeping Inflation is a rate of general price increase of 1 to 5 percent a year. Creeping inflation of 3 to 5 percent erodes the purchasing power of money when continued over

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many years, but it is 'manageable'. Furthermore, a low creeping inflation could be good for the economy as producers and traders make reasonable profits encouraging them to invest.

Trotting Inflation is usually defined as a 5 to 10 percent annual rate of increase in the general level of prices that, if not controlled, might accelerate into a galloping inflation of 10 to 20 percent a year. If it aggravates, **Galloping Inflation** can worsen to '**runaway**' control, a condition in which prices increase rapidly as a currency loses its value.

Hyper Inflation requires a monthly inflation rate of 20 or 30% or more – an inflationary cycle without any tendency toward equilibrium. The worst is a **monetary collapse**, if prices are not reined in time.

Other related concepts are:

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⇒ **Deflation -** when there is a general fall in the level of prices.
⇒ **Disinflation -** which is the reduction of the rate of inflation.
⇒ **Stagflation -** which is a combination of inflation and rising unemployment due to recession.
⇒ **Reflation -** which is an attempt to raise prices to counteract deflationary pressures.

Depending upon the cause of Inflation **t**here are four major types of inflation:

Demand – pull Inflation is the inflation caused by increases in demand due to increased private and government spending, etc, which in turn leads to real gross domestic product rises and unemployment falls. This is commonly described as "too much money chasing too few goods".

Cost – push Inflation is also referred to as "Supply Shock Inflation", caused by reduced supplies due to increased prices of inputs. Just as a shortage of goods tends to

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push prices up, an oversupply of commodities tends to induce the opposite effect on prices

Structural Inflation is a type of persistent inflation caused by deficiencies in certain condition in the economy such as a backward agricultural sector that is unable to respond to people's increased demand for food, inefficient distribution and storage facilities leading to artificial shortages of goods.

Inflation in India for SSC - How to Measure Inflation?

GDP Deflator

GDP stands for **Gross Domestic Product**, the total value of all final goods and services produced within that economy during a specified period. GDP Deflator is a measure of the change in prices of all new, domestically produced, final goods and services in an economy. The GDP Deflator is not based on a fixed market basket of goods and services but applies to all goods and services domestically produced.

Cost of Living Index

The Cost of Living (CoL) is the cost of maintaining a certain standard of living. It is defined with reference to a basket of goods and services. When their cost goes up, CoL is said to be dearer (expensive) and the index will go up. It has a value of 100 in the base year. An index value of 105 indicates that the cost of living is five percent higher than in the base year.

Producer Price Index (PPI)

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Producer Price Index (PPI) measures the change in the prices received by the producer. PPI measures the price pressure due to increase in the costs of raw materials.

Wholesale Price Index (WPI)

Wholesale Price Index, which measures the change in price of a selection of goods at wholesale, prior to retail sales thus excluding sales taxes.

Consumer Price Index (CPI)

Consumer Price Index measures the changes in prices by the consumer at the retail level. It can be for the whole community or group specific.

If Inflation is high in an economy, the following problems can arise:

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- Low income group are partially hurt.
- Government fiscal deficit may go up.
- Strike can take place for higher wages which can cause a wage spiral.
- It will redistribute income from those on fixed income to those who draw an inflation linked income and business.
- Inflation tax will happen i.e. when a government borrows and spends the cash held by the people erodes in value due to inflation.
- It may discourage savings and thus hit investment and can drag down the economic growth.
- Inflation also discourages exports.

Also, low level of inflation is good if it is a result of innovation. Inflation at a moderate level is an incentive to the producer. It can also be '**Greasing the Wheels of Commerce'**

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Inflation in India for SSC - Measures to control Inflation

There is fiscal, monetary, supply - side and administrative measures to control inflation to optimal rates though zero rate of inflation.

- Fiscal Measures include reduction in indirect taxes.
- Monetary Measures include rate and reserve requirements changes. Open market operation can stabilize prices under normal conditions. Also, sterilization through Government bond transactions as in the case of MSBs
- Supply side factors include making goods available – eg. import of edible oil in India
- Administrative Measures include implementation of dehoarding and anti – black – marketing measures. Wage and price control can also be used.

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Indices of Inflation

Changes in the price levels at the wholesale and retail level are tracked by various price indices in India: WPI and CPI. All price indices use a year as a 'base year'. This means that rises and falls in prices are measured with reference to the price in that year. Movement of an index is based on the average of price movement of all the goods in the basket.

The Wholesale Price Index

Government launched a new series of Wholesale price index (WPI) with 2004 – 05 as base from 2010. The WPI is published by the Economic Advisor in the Ministry of Commerce and Industry, with a two weeks lag, tracks the wholesale traded price of

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various items that include agricultural commodities, industrial commodities, intermediate products for industry, products for consumers and energy items. The weight attached to each item in the index is meant to reflect the volume of wholesale trade in that item in the Indian market

- The index is a vital guide in economic analysis and policy formulation.
- WPI covers primary goods, power/fuel and manufactured goods.
- The WPI is not intended to capture the effect of price rise on the consumer though it generally and broadly indicates it.
- The advantage of WPI is that it is available with relatively small-time lag of fortnight.
- Disadvantages are that it does not include services like transport, health, education etc.
- The accuracy of WPI is unsatisfactory and also various services such as rail and road transport, health care, postal, banking and insurance, are not part of WPI basket.
- The index thus falls well short of being a broad-based indicator of the price level even in its construction.

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Consumer Price Index

There are three consumer prices indices in India. Each tracks the retail prices of goods and services for specific group of people because consumption patterns of different group differ.

- Industrial workers CPI – IW, a basket of 370 commodities is tracked
- Urban non – manual employees CPI – UNME, 180 commodities
- Agricultural Laborers CPI – AL, 60 commodities

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CPI measures price at the retail level. It is accounted by the retailers' margins which are built into what consumers pays. CPI varies across regions and across cities according to the consumer preferences for certain products, supplies and purchasing power. The CPIs are, more sensitive to changes in prices of food items

CPI numbers do not encompass all the segments of the population in the country and as such they do not reflect the true picture of the price behavior in the country. It is therefore necessary to compile a CPI which takes into account the consumption patterns of all segments of the population and includes services.

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