International Journal of Applied Research 2015; 1(2): 119-121

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 3.4
IJAR 2015; 1(2): 119-121
www.allresearchjournal.com
Received: 16-12-2014
Accepted: 23-01-2015

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Inflation and Its Impact

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Abstract
Inflation is a burning issue for most developing countries in today's times. This is especially true for India especially in the post reform era. On the one hand it has its negative impact as it affects the purchasing power of the people. On the other hand economists have also argued that it is impossible for growth to occur without certain levels of inflation. Thus, it becomes imperative for the government, the lawmakers and the economists to study this issue and suggest policy measures to keep it in check so as to balance the positive impact and counteract the negative ones.
According to statistical data inflation in India is higher specifically in food items. Causes for this are both demand side as well as supply side. Inflation in food items specifically impacts people in a harsher manner relative to all other commodities. It reduces the purchasing power of people which impacts on the savings of the people also. This paper explains about as per given statistics, the agricultural productivity and sophisticated techniques and reforms in retail industry which helps to protect people from inflation. Government polices like monetary policy and industrial policy should be prepared in such a manner which decreases inflation in India.

Keywords: Inflation, Impact, Factors Affecting Inflation

Introduction
Inflation can be defined as the general price rise of goods and services, which decreases the purchasing capacity of the people. When the general price level rises, fewer goods and services can be purchased for each unit of currency. In other words, the purchasing power of customer would gradually decrease if the income levels remain the same. In this situation the real value of currency would decrease while the value of goods and services would increase.
The most convenient method of calculating price inflation is to see the annual percentage changes in the price levels. The annualized inflation rate in India is 8.9% as of June 2012, as per the Ministry of Statistics and Programme 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, for all commodities. The inflation rate in India was recorded at 6.1% in August 2013. Historically, from 1969 until 2013, the inflation rate in India averaged 7.7% reaching an all time high of 34.7% in September 1974 and a record low of -11.3% in May 1976.The inflation rate for Primary Articles is currently at 9.8% (as of 2012). This breaks down into a rate 7.3% for Food, 9.6% for Non-Food Agricultural, and 26.6% for Mining Products. The inflation rate for Fuel and Power is at 14.0%. Finally, the inflation rate for Manufactured Articles is currently at 7.3%.

Factors Affecting Inflation
There are several factors which determine inflation in India. They are broadly listed below:-

1. Demand Factors: This is the condition where total demand exceeds the total supply. In this condition demand for goods exceeds their supply and thus prices increase. For example a country has a capacity to produce 10,000 units where demand is 20,000 units. In this condition the inflation will happen. Or in other words too much money is chasing too few goods.

2. Supply Factors: This is a kind of inflation which happens due to Supply factors. This is the condition which happens where sufficient supply is not present. The reasons might be a natural disaster, lack of rainfall, lack of sufficient production capacity etc. For example, a Scarcity in agricultural sector may lead to high prices or if labour expects higher wages this may also result in higher prices of the products.

3. Domestic Factors: The impact of inflation is seen more in developing economies. This is also attributable to weaker financial markets. In India this situation can be seen. The supply of money is rapidly increasing where as the supply of goods takes due time which causes increased inflation in India. It once again becomes the case of too much money chasing too few goods.

4. External Factors: The exchange rate also one of the important determinants of inflationary pressures in a country. In an increasingly globalised world the prices of goods in other countries has an impact on the domestic prices of goods and thus inflation. For instance an increase in world crude oil prices leads to increases in the domestic economy of petroleum products which further impacts prices of all other commodities. This leads to inflation. Thus, external factors can also play a crucial role in determining inflationary trends in the country.

5. How Is Inflation Measured

The measurement of inflation has always been a matter of great debate amongst economists. The normal procedure of calculating inflation in any country is to select a representative basket of goods and services, assigning weights to these commodities in respect of their relative importance and then calculating a composite index for the price levels of the country.

In India inflation can be measured basically by using five different measures. Out of the 5, the Wholesale price Index (WPI) is the most commonly used method for measuring inflation. The remaining four are Consumer Price Index (CPI) for different groups

i. Industrial Workers (IW)
ii. Agricultural Labour (AL)
iii. Rural Labour (RL)
iv. Urban Non-Manual Employees (UNME)

In India, the most widely used method is the Whole sale Price Index (WPI) which takes the data of 435 commodities with different weights which indicate the movement of prices of commodities used in all trade and transactions. The reason for measuring inflation in India through WPI is that the data regarding whole sale prices is easily available form market. The year on year the inflation is increasing in India. It is around 9% in the year of 2011, whereas food inflation was 9.5% at present prices plotted on year on year percentage changes in Whole sale price index for all commodities (WPI). It has been seen that inflation was more than 5% from 2004-2005 to 2007-2008. Inflation has been consistent at a rate of around 5% and GDP fluctuated from 14% to 16% between 2004-2005 and 2007-2008. There is a growth of economy even in inflation between 2004-2005 and 2007-2008. This can be treated as growth-Inflation by economists in the country.

From 2007-08 to 2009-10 the GDP growth of the country decreased. There are certain reasons for this decrease in GDP from 2007-2008 to 2009-2010. During the same period inflation had increased. To understand this abnormality all commodities are classified in to sub-categories in to: primary articles (PA) consisting of food articles (FA) and Non-food Articles (NF), fuel, power, light and lubricants (FPL and L) and manufacturing products (MP). By plotting the values of each category we will come to know which product and its price abnormally varied from the actual trend.

It was observed that the most crucial situation is in food-inflation. It has been changing from last five years, 2004-2005 to 2009-2010 which shows only an increasing trend. Even in 2009-2010 onwards it is showing an increasing trend only. The Non-Food Articles also showed an increasing trend up to 2007-2008 and thereafter it showed a decreasing trend with GDP.

The Food Articles price rise is higher than GDP. That could be the one of the reason why inflation is higher in food articles. The food articles inflation is around 8% - 9% from last five years. The last rate of food inflation is high even compared with previous one. Food Articles in the Wholesale Price Index (WPI) include mainly eggs, meat, fish and milk, vegetables, fruits, pulses, cereals etc. They broadly determine the contribution to the WPI. Mainly food inflation of 2.2% in WPI can be seen in Eggs. Meat and fish are found to contribute more to inflation. The other influential commodities are vegetables, cereals, and milk. Pulses come in 5th position as a determinant of food inflation; they contribute to 0.6% of WPI. This scenario explains that food articles are the reasons for more inflation in India.

An analysis of the components of food articles shows that the inflation in pulses is high as compared to other cereals, vegetables, eggs, meat and fish. Milk is also an important contributor to inflation in food articles. It is also observed that all food articles and its price rates are showing increasing trend in future.

6. Main Findings

Inflation is higher in food articles as compared to other articles in the basket of commodities in the WPI. This can be mainly attributed to the decreased productivity in the agricultural sector. For instance the inflation in pulses is the highest and it is also seen that the production and productivity in pulses has been quite low. This indicates supply side bottlenecks of the agricultural sector in the Indian economy. The major impact of food inflation is seen on the middle and lower classes of the country. This is a dangerous trend as it is making the lower strata of our society worse off than before. It is thus, extremely important to first tackle our basic supply side bottlenecks, especially in the agricultural sector so that we can progress rapidly on the path of development in an inclusive manner. Suitable policy mechanisms need to be put in place otherwise the current trends will start becoming an impediment to growth instead of leading to growth.

7. Conclusion

In conclusion, it can be said that an in depth analysis of inflation is necessary to decide whether it is leading to growth or actually making the general population worse off than before. It is important to see where the inflation is arising from and its reasons. Government and the policy makers of the country need to focus on how to tackle this trend of food inflation keeping in view the fact that we have an increasing population and that food is an essential commodity for human beings. Only after we fulfill this basic need can we think of growth and development in other sections of the society. They need of the hour is probably a second Green revolution which focuses on increasing the productivity of items like pulses.

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