FREE E-BOOK

oliveboard

INFLATION

Economy & Social Issues (ESI) Notes

FOR RBI & NABARD EXAMS

Inflation

ESI Notes for NABARD Gr. A & RBI Gr. B Exam

Definition

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

Types of Inflation

Demand-Pull Inflation	Rising demand in the economy
Core Inflation	Inflation rate excluding temporary factors
Hyperinflation	Monetary inflation occurring at a very high rate
Cost-push Inflation	Increase in cost e.g., rising oil prices
Wage-Inflation	Inflation caused by rising real wage
Imported Inflation	Inflation is caused by the rising price of imports e.g., due to devaluation

*Deflation

Deflation is a general decline in prices for goods and services, typically associated with a contraction in the economy's supply of money and credit. During deflation, the purchasing power of currency rises over time.

***Stagflation**

Stagflation is a condition of slow economic growth and relatively high unemployment, or economic stagnation, accompanied by rising prices, or inflation. It can also be defined as inflation and a decline in the gross domestic product (GDP).

Causes of Inflation

Government spending or Deficit financing by the government.

Government spending or Deficit financing by the government → When the government spends more freely, prices go up → Due to fiscal stimulus → Increased borrowing → Depreciation of rupee → Low unemployment rate → Increase in the prices of the goods (inflation) →The overall increase in the cost of living

Inflation Trends in India

India inflation rate for 2017	3.33%, a 1.62% decline from 2016
India inflation rate for 2018	3.95%, a 0.62% increase from 2017
India inflation rate for 2019	3.72%, a 0.22% decline from 2018
India inflation rate for 2020	6.62%, a 2.9% increase from 2019

Calculation and Measures

Inflation is measured by a central government authority, which is in charge of adopting measures to ensure the smooth running of the economy. **In India, the Ministry of Statistics and Programme Implementation measures inflation.**

There are two main sets of inflation indices for measuring price level changes in India – the **Wholesale Price Index (WPI) and the Consumer Price Index (CPI).**

- Inflation is the rise in the prices of goods and services. It's calculated by tracking the increase in prices of essentials.
- The primary index that tracks the change in retail prices of essential goods and services consumed in the **Consumer Price Index or CPI**.
- The other index measures inflation is the **Wholesale Price Index (WPI),** While retail inflation looks at the price at which the consumer buys products, WPI is measured based on prices at the wholesale level.

*Consumer Price Index (CPI)

CPI is calculated by considering the retail price change of goods and services and by taking the average weighted value of each item in the basket.

*Brief History of CPI

In 2013 CPI in India replaced the Whole Sale Price Index (WPI) as a main measure of inflation. It was proposed by the **Urjit Patel Committee** to abolish WPI and introduce CPI in India, which exhibits the hardships faced by the consumers due to the effect of inflation. The Reserve Bank of India (RBI) has mandated using **CPI as the sole indicator of inflation for its monetary policy.**

*Wholesale Price Index

A wholesale price index (WPI) measures and tracks the changes in the price of goods before they reach consumers: goods that are sold in bulk and traded between entities or businesses (rather than consumers).

*CPI and WPI index Publishing Institution

Index	Base Year	Published by
CPI (Industrial Worker)	2001	Labour Bureau
CPI (Rural Labour)	1986-87	Labour Bureau
CPI (Agricultural Labour)	1986-87	Labour Bureau
CPI-U (Urban Population)	2012	MOSPI
CPI-R (Rural Population)	2012	MOSPI
WPI	2011-12	Office of Economic Affairs, Ministry of Commerce, and Industry

***MOSPI-**Ministry of Statics and Program Implementation*

Good Inflation

Economists believe inflation comes about when the supply of money is greater than the demand for money. Inflation is viewed as a positive when it helps boost consumer demand and consumption, driving economic growth.

How Inflation is good for the economy?

- Erodes Purchasing Power
- Encourages Spending, Investing
- Raises the Cost of Borrowing
- Increases Growth
- Reduces Employment, Growth

Bad Inflation

Inflation is mostly regarded as bad because it usually comes with negative side effects in many circumstances. Extremely high inflation is generally never good for both the economy and individuals because it dramatically reduces the value of money.

How Inflation is Bad for the Economy?

- Inflation results in a higher rate of interest as central banks try to reduce the money supply by increasing interest rates.
- Inflation hurts fixed income groups like salaried class people, pensioners, savers, and poor people.
- Inflation makes the country products uncompetitive in international markets.
- Inflation if not controlled can lead to hyperinflation which is the worst-case scenario as it may result in a complete breakdown of the economy.

How to Control Inflation?

- Fiscal Policy → Reducing Fiscal Deficit.
- Monetary Policy → Tightening Credit.
- Supply Management through → Imports.
- Incomes Policy →Freezing Wages.

National Economy and Individual Income

A **national economy** refers to the economy of an entire country, The national economy includes financial resources and management, it encompasses the value of all goods and services manufactured within a nation.

An **Individual income** means "adjusted gross income" as reported for federal income tax purposes, less any income attributable to a spouse or to property owned by a spouse.

Measures of Economic Performance

- Balance of payment
- Unemployment
- Economic Growth (GDP)
- Exchange Rates
- Inflation

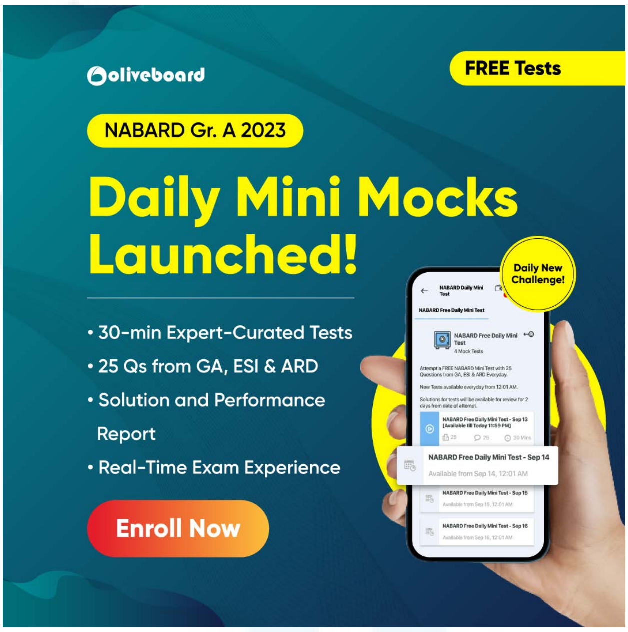
Important Terminologies Related to Measuring of Economy and Individual Income

GDP (Gross Domestic Product)	**Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
GNP (Gross National Product)	**Gross national product (GNP)** is an estimate of the total value of all the final products and services turned out in a given period by the means of production owned by a country's residents
NNP (Net National Product)	**Net national product (NNP)** is the monetary value of finished goods and services produced by a country's citizens, overseas and domestically, in a given period.
NDP (Net Domestic Product)	**Net domestic product (NDP)** is an annual measure of the economic output of a nation that is calculated by subtracting depreciation from the gross domestic product (GDP).
GNI (Gross National Income)	**GNI** is the total amount of money earned by a nation's people and businesses. It is used to measure and track a nation's wealth from year to year.
HDI (Human Development Index)	**Human Development Index (HDI)** is a statistic developed and compiled by the United Nations to measure and various countries' levels of social and economic development

Sources:

- Investopedia
- Mrunal Economy Book
- Ramesh Singh Indian Economy Book
- Budget and Economic Survey


NABARD Gr. A 2023
Crash Course
oliveboard
#YourGatewayToNABARD
• 100+ LIVE Classes for Phase 1 & 2
• Revision Notes for ESI, ARD, CA, CK
• Full Mocks & Sectional Tests
• Descriptive Tests with Evaluation
Enrol Now


oliveboard
FREE Tests
NABARD Gr. A 2023
Daily Mini Mocks Launched!
Daily New Challenge!
• 30-min Expert-Curated Tests
• 25 Qs from GA, ESI & ARD
• Solution and Performance Report
• Real-Time Exam Experience
Enroll Now