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Research Paper

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INFLATION IN INDIA: CAUSES AND EFFECTS

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ABSTRACT

This paper goals at the basis understanding of Inflation and its different influencing factors in the Indian context. In general sense the inflation is the increase in price levels which prevent the living of a common man in any developing country like India. The major part of the paper concentrate on the goods inflation with regard to the Indian economy and it's over all reasons, effects and impact on the growth and development.

KEYWORDS: *Inflation, Commodity inflation, Indian Economy, Price levels.*

INTRODUCTION

"Inflation poses a serious threat to the growth momentum. Whatever be the cause, the fact remains that inflation is something which needs to be tackled with great urgency ..."

The public perception about Inflation is the overall increase in the goods prices which creates the most continuous Impact on the price level of goods prices. Thus price increase will leads to deteriotins effect on the purchase power of money, which leads to the real value of currency loss, and the increase in the value of goods and, services.

Inflation in India is measured as changes in the Wholesale Price changes in the Wholesale Price indicator, for all goods indicator. The rate of price increase in India was recorded at 6.1% in August 2013. In the past, from 1969 until 2013, the inflation in India was 7.7% reaching an all-time high of 34.7% in September 1974 and a documentation low of 11.3% in May 1976.The inflation rate for most important Articles is currently at 9.8% (2012),Which was further devalutioned to 7.3% for Food, 9.6% for Non-Food Agricultural, and 26.6% for Mining Productions. The swell rate for Fuel and Power is at 14.0%. The present rate of inflation for Manufactured Articles is 7.3% (2016-2017).As on August 2015 the inflation rate in India was recorded at 3.78%.The inflation rates in India are calculated based on Consumer Price Index (CPI).

wholesale price index method is used to calculate the rate of inflation and it is different from the rest of the countries In India . It is on weekly basis where the wholesale price of predefined set of 435 goods is calculated; however during the times of increasing swell increasing cost of living is also taken into account to calculate the rate of inflation. Owing to ever-increasing prices, people have to pay out more money to sustain the standard of living, thus the goods price increases and eats away the savings of a medium man of the country.

FACTORS INFLUENCING INFLATION IN INDIA

In India following are the Factors influencing Inflation:

The major categorised determinants of the inflation in regard to the employment generation and growth are :

- Demand factors
- Supply factors
- Domestic factors
- External factors

Demand factors: The demand factors are with regard to the position when aggregate demand exceeds aggregate supply. Owing to the paucity of the supply too much money chases the existing few commodity. This has usually seen in India in context with the agrarian society. It is mainly owing to the drought and floods where the storage of food grains suffers the scarcity of supply and leads to deteriorated output hence increasing the prices for the goods.

Supply factors: The supply side inflation is a key part for the increasing inflation in India. The agricultural insufficiency or the damage in forwarding creates a shortage causing high inflationary pressures where the high cost of labour ultimately increases the production cost and leads to a high price for the goods and services. The negative impact will be on the cost of production which further increases the value of the final output produced. These supply driven factors have basically have a fiscal gadget for stipulations and moderation.

Domestic factors: These factors often address the issues related to well structured financial markets. Developing economies like India have universally a meaningless developed financial market which creates a brittle bonding between the interest rates and the aggregate demand. As the result the money gap increases the relative importance of price rise and inflation in India.

External factors: These factors are with notice to the external market forces, foreign exchange rates and import export related factors. The foreign exchange rate usually decides the external factors and is an important component for the inflationary pressures that arises in the India. The liberal economic outlook in India affects the internal markets. As the prices in United States of America rises it impacts India where the goods are imported at a higher price impacting the price rise. These import/export factors largely measures Competitiveness and challenges for the economy in terms of price rise and increased foreign exchange rates.

REVIEW OF LITERATURE

Based on the causes of inflation, several types or theories of inflation have been developed by economists. The first this theory of inflation is the demand-pull theory of inflation, which attributes the inflation to excess demand relative to supply. Pursuant to Monetarists, led by Milton Friedman, excess demand is the direct consequence of the raise in the hoard of money. The growth in money supply that merely responsible for the inflation (i.e. growth in price level) in the economy. Friedman, thus, states, inflation as always and everywhere a monetary phenomenon. Hajra, S. presents an analysis of inflation and affective factors in Indian economy for the period 1951-52 to 1973-74. His study evaluation the quantitative significance of monetary and fiscal variables in contributing the inflation during this period. He poses the problem of inflation to the wrong design and implementation of planning, besides too much growth in money supply. Brahmananda, P.R.tries to present a comprehensive account of inflation, discussing mainly, the nature, origin, causes, consequences, and control-techniques of inflation, particularly from the angle of poor economies like India. His approach is both theoretical as well as experiential. His work comprise of 47 chapters, divided into 6 parts. Parts I discusses the general background of inflation in the context of developments in the international economy. Part II contains a detailed presentation and discussion of the different theories of the determination of the price level. Part III discuses the links of inflation, under particularly the typical conditions of India, with production, production structure, unaccounted income, distribution, saving, interest rates, deficit financing, exchange rates, etc. Part IV presents the control techniques of inflation. Part V describes the long period comparative experience of several developed and developing countries with special reference to the connection between inflation and growth. Part VI presents major inferences. The main reasons contained in his book is that the inflation is basically the result of imbalance or disproportion between the rate of growth of stock of commodities essential for production and the rate of growth in money supply. Mithani, D.M. considers inflation as an intricate problem of the Indian economy. He preserves that the Indian economy has been caught in the cobweb of the inflationary price spiral since the second five year plan barring few exceptional years. Therefore the important goal of price fixation has been imperfected notwithstanding the conscious and sincere efforts made by the monetary authorities in dealing with the problem.

Reddy, Y.V. states that India's record of inflation for the period 1950- 51 to 1997-98 has been satisfactory, with the average rate of inflation lying in between 5 and 10 per cent. Pursuant to him, the inflation rate in

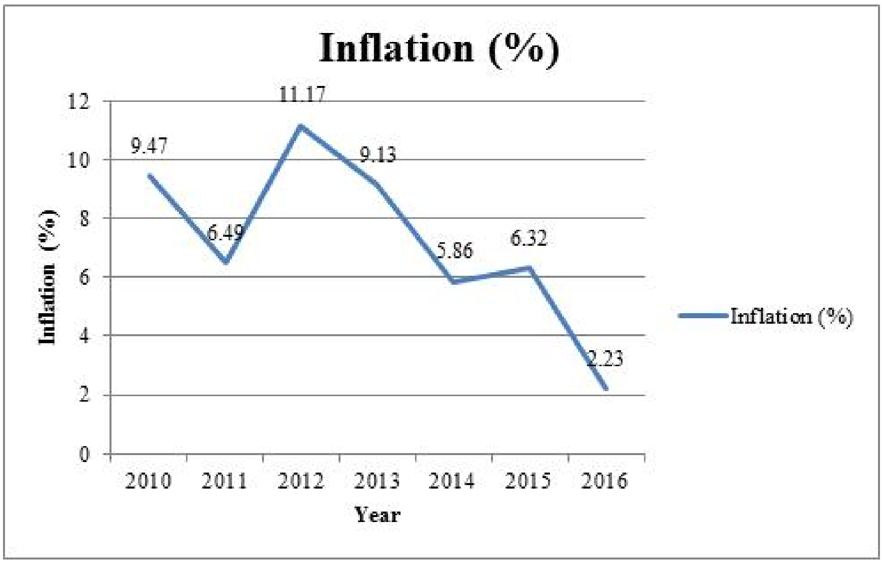
India is less volatile than in most developing countries. He however preserves that the high pressures of inflation were felt on almost all occasions, owing to external reasons like oil price, the gulf crisis and wars and domestic supply reasons like unfavourable monsoon circumstances.

John (2003) used post liberalisation data to study the causality between monetary figures and exchange rates. The scholar has used Vector Autoregressive (VAR) framework to find as to which variable of monetary aggregate explains the inflation in a better way. The writers are of the opinion that the monetary aggregates best explains inflation from the VAR model there is sufficient reason to believe that the broad money measure (M3) is better.

INFLATION STATISTICS OF INDIA

Year	2010	2011	2012	2013	2014	2015	2016
Inflation (%)	9.47	6.49	11.17	9.13	5.86	6.32	2.23

Source:www.inflation.eu/inflation-rates/India/historic-inflation/cpi-inflation-India.apex



OBJECTIVE OF THE STUDY:

- For assessment the cause and effects of Inflation.

CAUSES AND EFFECTS OF INFLATION

The cost-push inflation which is basically due with a rise in wages and prices of the commodities will leads to Rising in Wages, the Sectoral increaes in prices Rise in prices of Imported raw materials, Oil price shocks. Despite the increase in the price levels and wages, there are both positive and negative effects of inflation.

Following are the five positive effects of inflation.

- **Better Savings Account Rates**: Increased inflation may lead may turn out to be investor friendly, Investors with short-term aims might invest in a high-interest savings account, which may get better opportunities as increasing inflation often prompts the Federal Reserve to increase interest rates. Better savings can be more positive in the form of better return on money.
- **Cheaper to Travel Abroad**: The rise in inflation will lead to a drive in American Dollar, which makes purchases in foreign countries cheaper when compared with U.S. dollars, which makes the businesstrade in foreign countries as compared with US dollars. The trade and business transactions like the cost of travel food and purchase of other items can be cheaper.
- **Offsets Negative Effects of Deflation**: The inverse of inflation is deflation, which results in reduced prices on many things, such as grocery items. Deflation might significance good on the exterior because it rises the value of the money. In actuality, however, deflation leads to lethargic sales for the grocers and retailers, which in turn impacts the share price of these companies. Therefore it is considered that a comfortable inflation is good and acceptable to take care of the negative side of deflation or decrease money value.

- **Higher Wages**: As inflation pushes the price of commodities and services elevated, it's also definitely simultaneous and correlated with higher wages. The structural changes in job market might lead to wage growth, can a main reason causing inflation. The revolutionary changes in the job market with IT intervention has forced companies to offer better wages to new hires, they'll also have to pay more attention to fairly compensating their existing employees in order to preserve the talent they already have. Which has created a big impact on the reasons causing inflation with regard to the job market in India . This has created more opportunity for a increase in the wages in the job market.
- **Cost-of-Living Adjustments:** Even if there is no money to invest in stocks, gold or other assets that might be positively impacted by rising inflation, a sensible inflation (3%-5%) could still benefit the financial situation. The Social Security and additional security income could leads to an increase in the monthly spending when the consumer price index, one of the inflation measures, rise up. This is called a cost of living adjustment.

Following are the five negative effects of inflation:

- **Increased Material Costs:** The inflation results in rises of prices of all materials, substances commodities and services including medical/health care and prices for prescription drugs., and the rent could also go up and may pay for the increased costs of items on the same income, so inflation can be tough. This has far reaching impact especially during hyperinflation (when very high rates of inflation spiral out of control),which is further called as core inflation-excluding certain volatile markets like energy and food. The collective impact will be on Consumer Price Index" and more on the living of common man.
- **Increased borrowing costs:** Increase in inflation may leads to increase in the interest rates of banks, increasing the overall borrowing costs. These rates are then, in turn, delivered on to individual and business borrowers. The bottom line is that higher inflation means higher interest rates on the money.
- ARMs Might Have Higher Rates: As a result of higher inflation the ARMs will be worst hit and the higher mortgage interest rates will be an expensive alternative for the general public, which means higher mortgage payments.
- The Hoarding might lead to immediate shortages in food and household goods, facing long time scarcity for essential goods and services.

CONCLUSION

In general, it can be of the opinion that Inflation carries both good and undesirable impact on the overall economy of the country.Therefore it is considered that bonds, often require investors to lock into a guaranteed rate for a long time and regarded as the safe investments in the long term.Therefore in summary Inflation creates a situation where these long-term investments that pay a low-interest rate have decreased buying power because inflation pushes the price of goods and services up.

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