

# INFLATION

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## Introduction

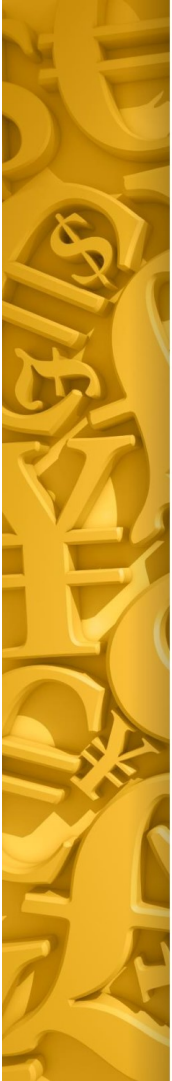
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- A considerable and persistent rise in the general level of prices over a long period of time
- Pigou -“Inflation exists when money income is expanding more than in proportion to increase in earning activity”
- Coulborn- “Inflation is a situation of too much money chasing too few goods”
- Crowther- “A state in which the value of money is falling, that is, prices are rising
- Ackley- “Inflation is a persistent and appreciable rise in the general level or average of prices”

## The costs of inflation

- Inflation distorts the price mechanism
- It erodes the value of money and assets
- It redistributes income between groups
- It has a negative effect on the balance of payments
- It causes uncertainty and falling investment
- It can create unemployment





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A Moderate rate of inflation is considered to be desirable and acceptable. Why so?



## Let us look at India

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### **Wholesale inflation soars to 12.94% in May on fuel price surge, low base**

According to data released by commerce and industry ministry, fuel and power inflation stood at 37.61% led by higher petrol and diesel prices.

India's wholesale inflation hit a record high of 12.94 per cent in May driven by continued rise in fuel and [commodity prices](#) as well as due to a low base effect, data released by the government showed.



## Measures of Inflation

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- 1- Percentage Change in Price Index Numbers

- Rate of Inflation= *Rate of Inflation* =  $\frac{PINT - PINT-1}{PINT} * 100$

- 2-Measuring Inflation by GNP deflator
- GNP Deflator= Nominal GNP/ Real GNP







## Modern Theories of Inflation

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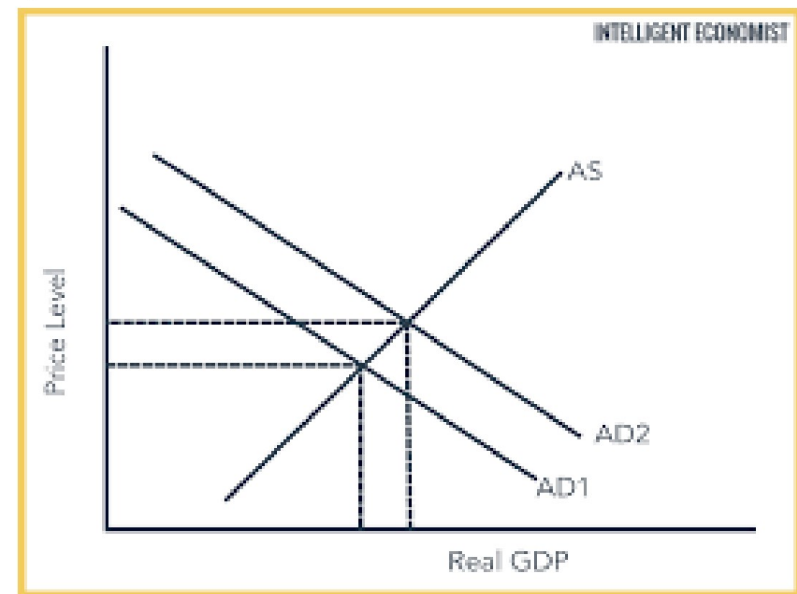
- A synthesis of Classical and Keynesian theory
- This analysis shows that inflation can be caused by both demand side (demand pull) and supply side (cost push) factors

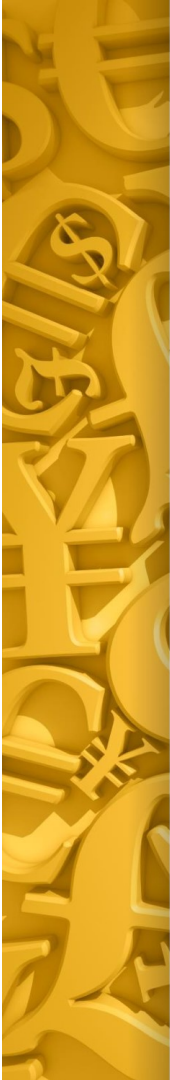


# Demand Pull Inflation

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- Demand pull inflation due to monetary factors
  - Increase in money supply
  - Change in real factors





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- Demand pull inflation by real factors
    - Increase in govt. spending given the tax revenue
    - Cut in tax rates without change in govt expenditure
    - Upward shift in investment function
    - Downward shift in saving function
    - Upward shift in export function
    - Downward shift in import function

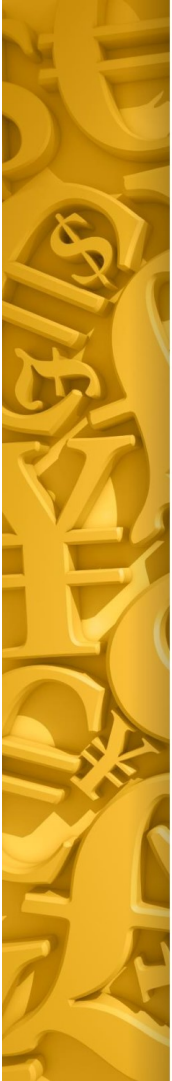


## Cost Push Inflation

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Cost-push inflation occurs when overall prices increase (inflation) due to increases in the cost of wages and raw materials

- Wage push inflation
- Profit push inflation
- Supply shock inflation



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- THANK YOU