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THE CAUSE AND EFFECT OF RISING NFLATION

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Abstracts:
The paper shows that how increasing inflation impacts consumers and the economy of india. Inflation in april is at its highest in the last 8 years, and almost twice the rbi's target. A look at the factors that have kept inflation high since october 2019, as the years have rolled by, overall inflation has been driven by more and more factors. In 2019-20, when overall inflation was 4.8%, the main reason was a 6% spike in food prices. And in 2020-21, when the pandemic hit the economy, food prices rose by an even larger factor (7.3%) and even core inflation rose by 5.5%.ndia's retail inflation rose by 7.79 per cent in april, according to the latest data released by the ministry of statistics and programme implementation. Inflation in food items rose by even higher — 8.38 per cent in april — according to the mospi's consumer food price index (see table 1 below).

Key words: *Inflation in india, increasing inflation in 2022, inflation impact on indian economy, cause and effectof inflation in india.*

Introduction:

According to the data released by the national statistics office (nso), inflation in april was a record-breaking 7.7 per cent, which is almost double the rate that the rbi must maintain, for smooth functioning of the economy. Retail inflation, which is on a rising streak for a few years, is the highest in 8 years. The wholesale price-based index (wpi) also saw an increase from 14.5 per cent in march to 15 per cent in april. The rbi in a pre-emptive move at the beginning of the month of may, called an emergency meeting and increased 40 basispoints on the interest rates, as a measure to tackle the rising inflation in the country, the effectiveness of which will be seen soon. The consumer price index (cpi) that has different categories carrying different values is used to calculate headline inflation. Food items carry a value of 46 per cent of the index while fuel and light weighed in for 7 per cent. The rest 47 per cent is carried by other major products that are a part of the core category. Food itemsare essential for everybody while other commodities like light and fuel are still a luxury for the major population of india. Understanding the value of each category becomes important to judge the overall impact They have on the headline inflation and by extension, on the economy. For example, inflation of 6 per cent inthe fuel category would not impact the overall inflation and the normal consumer more than a 6 per cent inflation in the food items category

What is inflation?

Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of A basket of selected goods and services in an economy over some period of time. The rise in prices, which is often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods. Inflation can be contrasted with deflation, which occurs when the purchasing power of money increases and prices decline.

Key takeaways

1. Inflation is the rate at which the value of a currency is falling and, consequently, the general level ofprices for goods and services is rising.
2. Inflation is sometimes classified into three types: demand-pull inflation, cost-push inflation, and built-in inflation.
3. The most commonly used inflation indexes are the consumer price index and the wholesale priceindex.
4. Inflation can be viewed positively or negatively depending on the individual viewpoint and rate ofchange.
5. Those with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets.

While it is easy to measure the price changes of individual products over time, human needs extend beyond just one or two products. Individuals need a big and diversified set of products as well as a host of services forliving a comfortable life. They include commodities like food grains, metal, fuel, utilities like electricity and transportation, and services like health care, entertainment, and labor. Inflation aims to measure the overall impact of price changes for a diversified set of products and services, and allows for a single value representation of the increase in the price level of goods and services in an economy over a period of time.

Causes of inflation

An increase in the supply of money is the root of inflation, though this can play out through different mechanisms in the economy. A country's money supply can be increased by the monetary authorities by:

1. Printing and giving away more money to citizens
2. Legally devaluing (reducing the value of) the legal tender currency
3. Loaning new money into existence as reserve account credits through the banking system by purchasing government bonds from banks on the secondary market (the most common method)

In all of these cases, the money ends up losing its purchasing power. The mechanisms of how this drives inflation can be classified into three types: demand-pull inflation, cost-push inflation, and built-in inflation.

Demand-pull effect

Demand-pull inflation occurs when an increase in the supply of money and credit stimulates overall demand for goods and services in an economy to increase more rapidly than the economy's production capacity. This increases demand and leads to price rises.

Cost-push effect

Cost-push inflation is a result of the increase in prices working through the production process inputs. When additions to the supply of money and credit are channeled into a commodity or other asset markets and especially when this is accompanied by a negative economic shock to the supply of key commodities, costs for all kinds of intermediate goods rise. These developments lead to higher costs for the finished product or service and work their way into rising consumer prices. For instance, when the expansion of the money supply creates a speculative boom in oil prices the cost of energy of all sorts of uses can rise and contribute to rising consumer prices, which is reflectedin various measures of inflation.

Types of price indexes

Depending upon the selected set of goods and services used, multiple types of baskets of goods are calculated and tracked as price indexes. The most commonly used price indexes are the consumer price index (cpi) and the wholesale price index (wpi).

The consumer price index

The cpi is a measure that examines the weighted average of prices of a basket of goods and services which are of primary consumer needs. They include transportation, food, and medical care. Cpi is calculated by taking price changes for each item in the predetermined basket of goods and averaging them based on their relative weight in the whole basket. The prices in consideration are the retail prices of each item, as available for purchase by the individual citizens. Changes in the cpi are used to assess price changes associated with the cost of living, making it one of the most frequently used statistics for identifying periods of inflation or deflation. In the u.s., the bureau of labor statistics (bls) reports the cpi on a monthly basis and has calculated it as far back as 1913.3 The consumer price index for all urban consumers (cpi-u) introduced in 1978, represents the buying habits of approximately 88% of the non-institutional population of the united states.45

The wholesale price index

The wpi is another popular measure of inflation, which measures and tracks the changes in the price of goods in the stages before the retail level. While wpi items vary from one country to other, they mostly include items at the producer or wholesale level. For example, it includes cotton prices for raw cotton, cotton yarn, cotton gray goods, and cotton clothing. although many countries and organizations use wpi, many other countries, including the u.s., use a similarvariant called the producer price index (ppi).63

The producer price index

The producer price index is a family of indexes that measures the average change in selling prices received by domestic producers of intermediate goods and services over time. The ppi measures price changes from the perspective of the seller and differs from the cpi which measures price changes from the perspective of the buyer.7 In all such variants, it is possible that the rise in the price of one component (say oil) cancels out the price decline in another (say wheat) to a certain extent. Overall, each index represents the average weighted price change for the given constituents which may apply at the overall economy, sector, or commodity level.

Conclusion:

Indian economy is currently facing high underlying inflation and needs further policy tightening, according to a note by research firm nomura. As per the report, only four nations in asia feature in the basket of 'hot' economies wherein the inflation rate is on the higher end of the spectrum. These economies include india, singapore, south korea, and taiwan. The headline retail inflation has been on an uptrend in india for a few months now and to limit this quick spike, the rbi earlier last week had announced a rate hike of 40 bps, with analysts expecting more hikes in the coming months. India's underlying inflation measure at 6.1% has already breached the upper bound of the rbi's 2-6% target range. The high inflation is also hurting the people who have invested or plan on investing in fixed deposits and people who receive annuities from the money they have invested in 'secured' options.

These do not yield the massive returns that the stock market gives. While the younger generation is generally not inclined towards investing their money in these options, the people who used this option to save money for certain needs like a retirement fund are facing losses due to the higher inflation rates which are a lot more than what a fixed deposit, for example, can yield. The rising inflation is affecting the poor more than the rich. While the government has introduced relief measures for massive corporations, it is not a long-term solution. India needs to devise a strategy that helps the poor negotiate the inflation while corrective measures to curb it is launched.

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