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Inflation - It's Types, Effects & Measures



Inflation - Its types, Effects and Measures

What is Inflation?

- The **general rise** in the price level of goods and services
- It is estimated as the percentage rate of change in price index over the reference time-period
- Currently in India inflation rate is measured with the help of **Consumer Price Index-combined** (Base year- 2012)
- Till April 2014, the Inflation rate was measured with the help of **WPI (Wholesale Price Index)**
- **Rate of Inflation**= $(\text{Current period price index} - \text{Reference period price index}) / (\text{Reference Period Price Index}) \times 100$

Types of Inflation

Based on rate of rising in Inflation

1. Creeping Inflation:

- Price rise at very small rate (<3%)
- It is considered safe and essential for the economy.

2. Walking or Trotting Inflation:

- Price rise at moderate rate (3% < Inflation < 10%)
- Inflation at this rate is a warning signal for the Economy.

3. Running Inflation:

- Price rise at high rate (10% < Inflation < 20%)
- It affects economy adversely.

4. Hyperinflation or Galloping Inflation or Runway Inflation:

- Price rise at very high rate (20% < Inflation < 100%)
- This situation brings the total collapse of Economy.

Based on causes

1. Demand Pull Inflation:

- When Inflation arises due to higher demand for goods and services over the limited supply.

2. Cost-Push Inflation:

- When Inflation arises due to higher input cost (**Example- raw material, wages etc.**) for goods and services over the limited supply.

Other definitions

1. Deflation:

- It is opposite to Inflation.
- Reduction of general level of price in an economy.
- In this price index measured is negative.

2. Stagflation:

- When stagnation and inflation coexist in the economy.

Stagnation- low national income growth and high unemployment.

3. Disinflation:

- When the rate of Inflation is at a slower rate.
- **Example:** If the Inflation of last month was 4 % and rate of inflation in the current month is 3 %.

4. Reflation:

- Deliberate action of government to increase the rate of inflation to redeem economy from a deflationary situation.

5. Core Inflation:

- It is a measure of price rise in the economy excluding the price rise of some products (whose price is volatile and temporary in nature).

Effects of Inflation



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1. **Redistribution of income and wealth:**

- Due to the effect of inflation, some group of people loses and another group of people gains.
- Example-

In case of debtors and creditors-

Debtor- gainer

Creditor- loser

In case of Producers and Consumers

Producer- gainer

Consumer- loser

2. **Effects on Production and Consumption:**

- Due to inflation, the demand decreases which curtails the production.
- People try to use fewer services which lead to decrease in consumption.

3. **Unfavorable Balance of Payments:**

- Export decreases and import increases from other countries which lead to decrease in forex reserve.

Measures to control Inflation

1. **Credit control**

- It is used by RBI.

2. **Increase in Direct Taxes**

- Due to increase of direct taxes, people have less money available to them and low demand from them leads to a lower price.

3. **Price Control**

- By fixing maximum price limit by authorities.

4. **Trade measures**

- Maintain proper supply in the economy by export and import of goods and services.



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