International Research Journal of Social Sciences ISSN 2319–3565
Vol. **2(12),** 51-55, December **(2013)** *Int. Res. J. Social Sci.*

A Study on Inflation in India

R.V.S.S., Nagabhushana Rao[1], P. Chenchu Reddy[2], A.M. Mahaboob Basha[2], P. Srinivasulu[3] and K. Sai Pranav[4]
[1]S.Chaavan institute of Computer applications, Nellore-524003, INDIA
[2]Vikrama Simhapuri University, Nellore-524001, INDIA
[3]Dept. of Chandra Reddy Degree College, Nellore-524003, INDIA
[4]Noble College of Computer Sciences-MBA, Kavali, INDIA

Available online at: www.isca.in, www.isca.me
Received 28th October 2013, revised 11th November 2013, accepted 3rd December 2013

Abstract

Inflation is burning issue which hinders the economic growth of the country. It is becoming more hectic to economists, politicians and even people also. It is very dangerous because it is directly impacting on standard of living of the people. The responsibility for government and politicians, economists is to protect/safe guard common man from inflation. According to statistical data the inflation in India is higher specifically in food items. Causes might be demand/supply side, which reduces the purchasing power of people, which impacting on savings of the people also. This paper explains about as per given statistics, the agricultural productivity and sophisticated techniques and reforms in retail industry which helps to protect people from inflation. Government polices like monetary policy and industrial policy should be prepared in such a manner which decreases inflation in India.

Keywords: Inflation, burning, economic, politicians, demand, supply, Government, polices

Introduction

Inflation is price raise of goods and services, which decrease the purchasing capacity of the people. When the general price level rises, for every each unit of currency fewer goods and services can be purchased. Consequently, the purchasing power of customer would gradually decrease. In this situation the real value of currency would loss, the value of goods and services will increase. The best method of price inflation is inflation rate the annual percentage changes in the price. The annualized inflation rate in India is 8.9% as of June 2012, per the Indian Ministry of Statistics and Programme Implementation. This represents a modest reduction from the previous annual figure of 9.6% for June 2011. Inflation rates in India are usually quoted as changes in the Wholesale Price Index, for all commodities. The inflation rate in India was recorded at 6.1% in August 2013. Historically, from 1969 until 2013, the inflation rate in India averaged 7.7% reaching an all time high of 34.7% in September 1974 and a record low of -11.3% in May 1976.The inflation rate for Primary Articles is currently at 9.8% (as of 2012). This breaks down into a rate 7.3% for Food, 9.6% for Non-Food Agriculturals, and 26.6% for Mining Products. The inflation rate for Fuel and Power is at 14.0%. Finally, the inflation rate for Manufactured Articles is currently at 7.3%[1].

Factors which Helps to Determine Inflation

There are several factors which becomes determinants to measure inflation in India, are Demand factors, Supply factors, Domestic factors, External factors, which become reasons for increasing inflation India. These determents which influence in different manner.

Demand Factors: This is the condition where total demand exceeds the total supply. This is the condition where huge money is available for few products, because supply is less. For example country has a capacity to produce 10lakh products where demand is 20lakh products, if this is the condition the inflation will happen, here product demand is becoming major factor for inflation.

Supply Factors: This is a kind of inflation which happens due to Supply factors. This is the conditions which happen where unable to supply the products. The reasons might be Scarcity (or) drought (or) natural disaster. The scarcity in agricultural sector may leads to high prices. If labour expects more wages, this might be cause for higher prices of the products. This is also one of the considerable factor which effect on Inflation.

Domestic Factors: Inflation impact is high in the countries of developing economies and underdeveloped economies, because the financial market which creates a weak bounding between the interest rates and aggregate demand. In India this situation can be seen, the supply of money rapidly increasing where as the supply of goods takes due time which causes increased inflation in India. There are several other factors for the gold and silver commodities and their price hike. Surplus money and few products which causes, inflation in India. That's reason why money markets and capital markets plays prominent role in the creation of inflation in India.

External Factors: The exchange rate also one of the main determinant for inflationary pressures that arises in India. When prices of thee goods rises, which import from United States of America, those goods which are importing from USA to India automatically Increase. The exchange rates can be Fixed exchange and Flexible exchange rates, which impact on Inflation in India.

Review of Literature

According to some analytical study inflation become major issue for both academics and policymakers. They explained about how it is hindrances to the growth of the nation. They have did clear analysis over the past five years, particularly on food inflation, demand and supply side factors behind surging food prices. Pointing out that how the policies are impacting on raising and falling of food articles and its prices. They emphasized on the increasing agricultural productivity[2].

According to Assoc ham Eco Pulse study FY 2009-2010 the inflation is averaged near 5%. According to AEP study titled inflation concerns for the Indian economy stated the surge in international commodity markets led by energy (crude oil, natural gas and coal), metals (copper, aluminum and iron ore) and food (cereal and meat) is likely to push the domestic prices up once the heavy fiscal and monetary measures taken as the crisis response starts to firm up the economic activity[3].

According to some school of thought, they explained about what is the best measure for inflation. Which is the suitable measure and relevant for monetary policy. In the present conditions of the economy, Consumer price index for industrial workers (CPI-IW) is preferable to either the wholesale price index or the GDP deflator[4].

According to some analytical frame work, they studied that aims at empirically identifying the determinants of inflation in india.In a cointigrated vector auto regression (VAR) framework, the empirical estimation is carried out. The error correction mechanism (ECM) of the cointegrated variables is also carried out. The impulse Response function (IRF) of the cointegrated VAR system shows that there is a lag in the VAR System. There is a systematic analysis which is the best measure for inflation and what causes for inflation[5].

Statement of the Problem

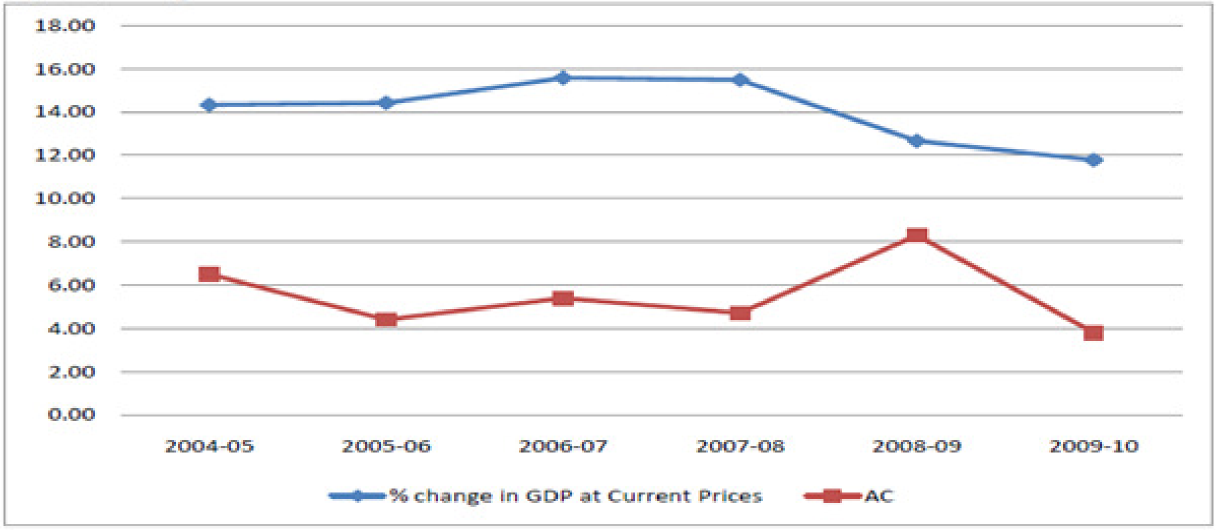
The very dangerous economical setback in the Indian economy is inflation which hinders economical power of the people. Most of the people are still suffering due to inflation in India. Government and economists should generate better policies for the development of nation.

Objectives of the Study: i. To Identify the best tool for Inflation measure in India, ii. To Identify the the most impacting factors on Whole Sale price Index (WPI), iii. To Identify sub-classifications of cum most impacting factors of Food Articles, iv. To identify which most impacting factors are hindering the purchasing power of customer.

How Inflation Can Be Measured

Changes in the level of prices are determinants to the level of index. The various goods and services and its prices are meant for the index to increase inflation. Inflation is a very tough concept and condition which become serious issue to economists, politicians and for even society people also. Government should mainly concentrate on how to decrease inflation, because inflation mainly impacting on common man in the country. Inflation is a movement where prices of products increase, which decreases the purchasing capacity of the people. When purchasing capacity decrease, the standard of living of the people would decrease. Inflation can be measured basically by using five different measures, in India the Wholesale price Index (WPI) is commonly used method for measuring inflation. The remaining four are belongs to Consumer Price Index (CPI) which contains i. Industrial Workers (IW), ii. Agricultural Labour (AL), iii. Rural Labour (RL) iv. Urban Non-Manual Employees (UNME).In India basically we will use a unique measure to measure the inflation which is Whole sale Price Index (WPI) which takes the data of 435 commodities with different weights which indicate the movement of prices of commodities used in all trade and transactions. The reason for going to measure inflation in India is the data regarding commodities to measure the inflation, whole sale prices are easily available form market. The year on year the inflation is increasing in India it is around 9% in the year of 2011, where as food inflation was 9.5% at present prices plotted on year on year percentage changes in Whole sale price index for all commodities (WPI).

From the above graph it is depicts that inflation is more than 5% from 2004-2005 to 2007-2008, it will tells us that inflation is in consistent rate around 5%, GDP also fluctuates between 14% to 16% between 2004-2005 and 2007-2008. There is a growth of economy even in inflation between 2004-2005 and 2007-2008. This can be treated as growth-Inflation by So-Called economists in the country. There are certain reasons to decrease GDP from 2007-2008 to 2009-2010, where inflation increases from 2007-2008 to 2009-2010. To understand this abnormality all commodities (AC) are classified in to sub-Categories in to : primary articles (PA) consisting of food articles (FA) and Non-food Articles (NF) fuel, power, light and lubricants (FPLandL) and manufacturing products (MP). By plotting the values of each category will come to know which product and its price abnormally varied from actual trend. This explains about what are the reasons to decrease GDP and the list of products and its value is differing from actual trend.



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, http://eaindustry.nic.in/.

Figure-1
Change in GDP and WPI

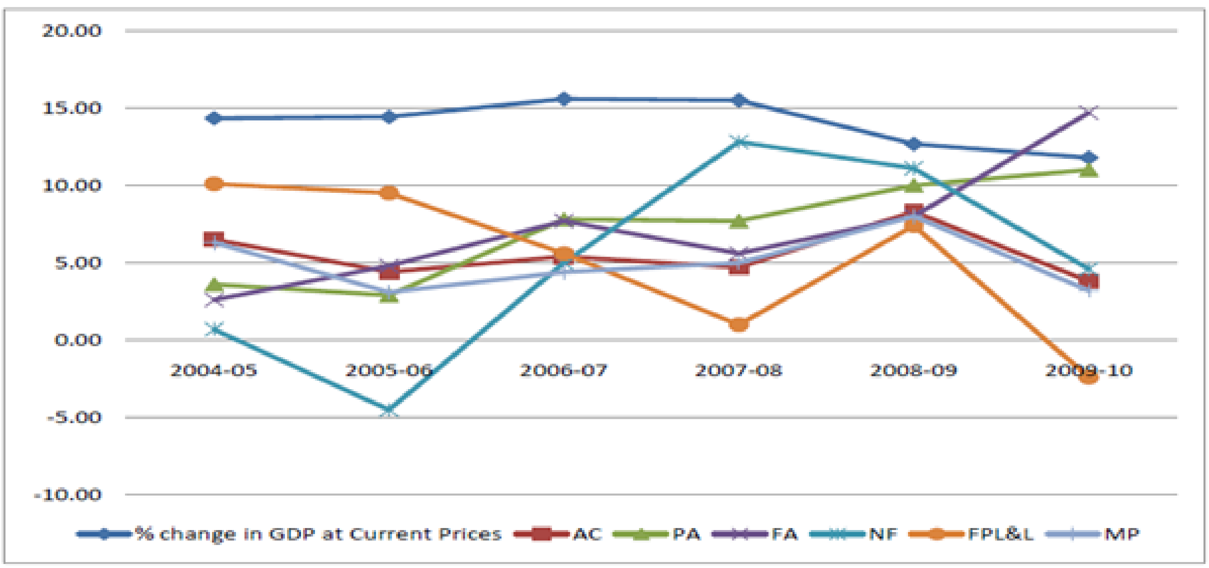
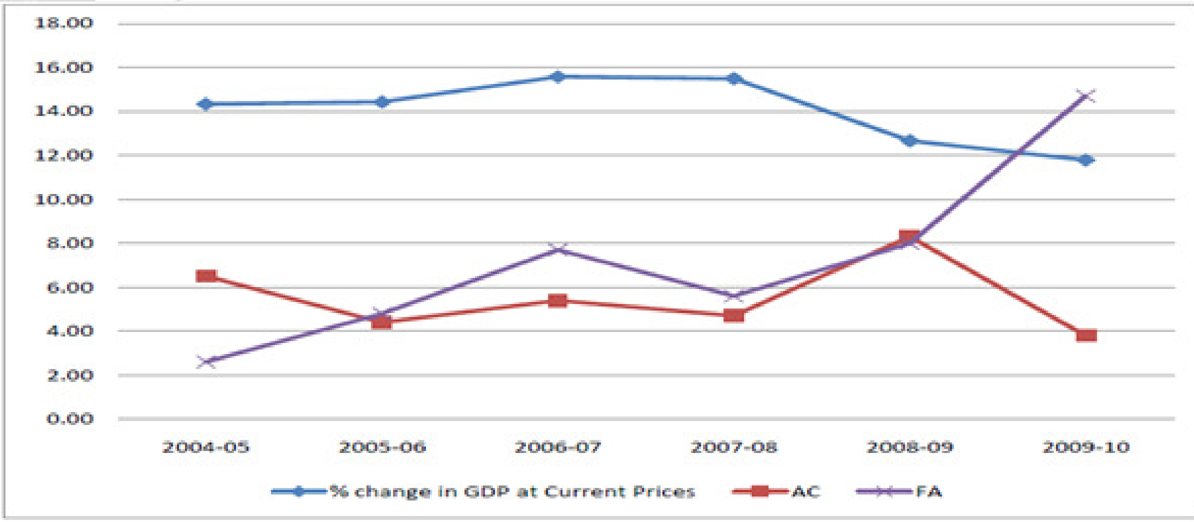


Figure-2
Change in GDP and Components of the WPI

Source: Office of the Economic Advisor, Ministry of Commerce and Industry, http://eaindustry.nic.in/.

From the figure it is depicts that, the most crucial situation is food-inflation. It has been changing from last five years, say 2004-2005 to 2009-2010 which shows only increasing trend only, even still 2009-2010 onwards it is showing increasing trend only. The Non-Food Aricles also shown increasing trend up to 2007-2008, then after it is showing decreasing trend with GDP. The Food Articles price rise is higher than GDP. That could be the one of the reason why inflation is higher in food articles. The food articles inflation is around 8% - 9% from last five years. The last rate of food inflation is high even compared with previous one. This scenario explain about there is further research is necessary to understand clearly even in depth what are the causes of food Inflation in India.

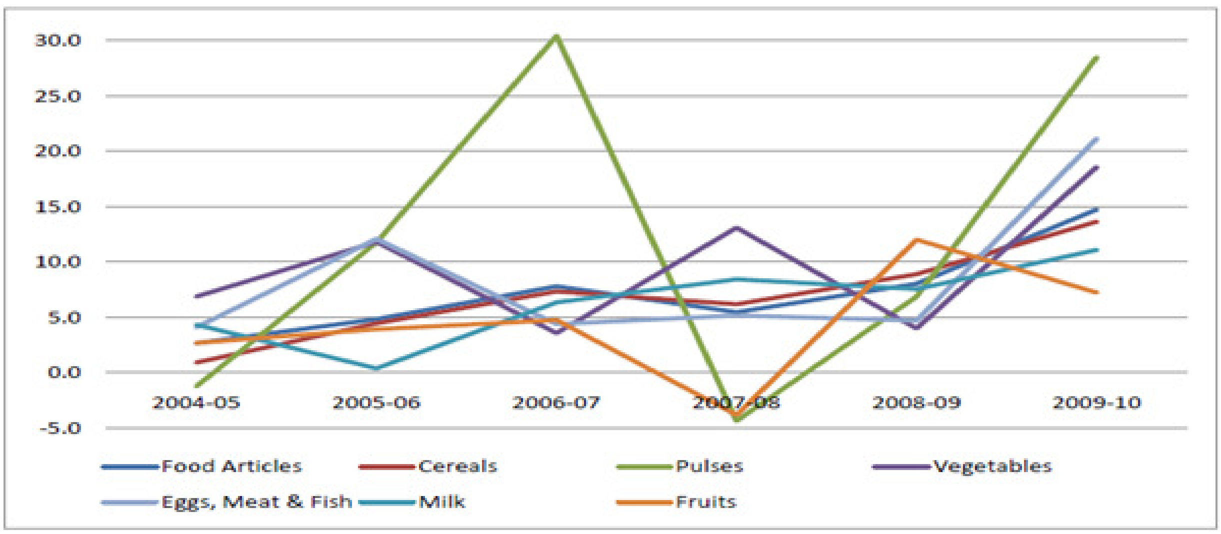
Food Article in the Wholesale Price Index (WPI) is comprises of Egg, meat, fish and milk, vegetables, fruits, pulses, cereals and other food articles determines the contribution to the WPI. Mainly food inflation 2.2% on WPI can be seen in Eggs, meat and fish are found to contribute more to inflation. The other influential commodities are vegetables, cereals, and milk. Pulses come in 5th position as determinant of food inflation, they contribute 0.6% of WPI. This scenario explains that food articles are the reasons for more inflation in India.



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, http://eaindustry.nic.in/.

Figure-3

Change in GDP and AC, FA Inflation



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, retrieved from http://eaindustry.nic.in/

Figure-4

Components of FA

From the above graph it is depicts that pulses rate is high, compared to other cereals, vegetables, eggs, meat and Fish, Milk also taking more contribution .All Food articles and its price rate showing increasing trend in future. The Eggs, meat and fish also taking considerable place in the increasing prices of the food articles. The overall trend for food articles is in increasing trend. This graph clearly explains about the inflation is more in food articles.

Findings: i. inflation is high in food articles, ii. this impacting more on middle class and below middle class people, iii. on food articles it is high in pulses and vegetables, iv. egg, meat and fish and milk are also taking major contribution in the inflation

Suggestions: i. Inflation is in considerable state in food articles, government should develop better policies and procedures for decreasing inflation in India, ii. Inflation in food articles mainly impacts on lower strata of the economy, iii. Government should take care about price hikes of necessary items of the people.

Scope for Future Research

The gross domestic product of the country is showing increasing trend. At the same time inflation also gradually increasing. This situation can be called as “growth-inflation”. Further research can be extended on, consumer price index and its implication on economy. the further research can be extended on inflation impact on other goods and services etc.

Conclusion

Finally I want to conclude that inflation plays major role, to weaken the economy. Mainly inflation can be seen in food articles, which impact on weaker sections of the people in the nation. Government and policy makers of the economy should think more about, how to reduce inflation. Food is universal need for people. If inflation more in food articles, it will harm to the country people.

Inflation should not be there in food articles because food is essential need for all categories of the people. In Percapita income of the people is less, less percapita income of the people surviving is very difficult with high inflation in the country.

Futher More analysis can be seen from the below references, which helps to understood clear cut picture about inflation position in India. I have taken below references for my particular analysis, I would like to thanks to all authors who helped me to complete successfully. I would like to thanks the writers of the below articles who given me an idea to write an article in the topic of inflation, up to my knowledge I analysed the things in this articles. These below all reference articles will become only cross reference articles.

Reference

1. http://en.wikipedia.org/wiki/Inflation_in_India **(2013)**
2. Pratima Singh, Inflation in India: An empirical Analysis, ISAS *Institute of South Asian studies*, No.128 - 10 may **(2011)**
3. Gaurav Sharma, Inflation concerns for the Indian economy: *Assocham Research Bureau,* **(2009)**
4. Ila Patnaik, Ajay Shah, Giovanni Veronese., How to measure inflation in India, *NIPFP-DEA, Research Program on Capital Flows and their Consequences National Institute of Public Finance and Policy New Delhi Working Paper* **2011-83 (2011)**
5. Anuradha Patnayak, Study of Inflation in India: A Co integrated Vector Auto regression Approach, *Journal of Quantitative Economics*, **8(1)** (**2010)**