

# Vivekanand College, Kolhapur (Autonomous)

Department of Economics

**Subject- Business Economics (Macro)**

Topic- Inflation: Meaning, Types and Causes



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# Inflation-


- Inflation is commonly understood as a situation of substantial and rapid general increase in the level of prices.
- And consequent deterioration in the value of money over a period of time.
- The rise in the general level of prices, often expressed as a percentage.
- Inflation can be contrasted with deflation, which occurs when the purchasing power of money increases and prices decline.
- Inflation is the rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.
- Usually, the Wholesale Price Index (WPI), numbers are used to measure inflation. Alternatively, the consumer price index (CPI), or the cost of living index (CLI), numbers can be adopted in measuring the rate of inflation.

## Definitions-

- ▶ Harry Johnson defines- “Inflation as a sustained rise in prices”
- ▶ Crowther defines as “a state in which the value of money is falling that is prices are rising”

Inflation Rate-

$$P(t) = \frac{P_1 - P_0}{P_0} \times 100$$



Year	WPI	Inflation Rate
1980-81	257	-
1981-82	281	9.33%
1982-83	289	2.84%
1983-84	316	9.40%



# Types of Inflation-

- Moderate Inflation

1. Creeping

2. Walking

- Running and Galloping Inflation

- Hyper-Inflation

- Demand Pull Inflation

- Cost Push Inflation

## **Moderate Inflation-**

- It is mild and tolerable form of inflation.
- It occurs when prices are rising slowly.
- When the rate of inflation is less than 10 percent annually, or it is a single digit annual inflation rate, it is considered to be a moderate inflation in the present day economy.
- Economists have arbitrarily laid down that a 3-4 per cent price rise per annum is a tolerable rate of inflation in modern economies.
- Even the Chakravarthi report of the RBI has accepted 4 percent rat inflation annually to be an efficient and tolerable norm for the Indian economy.



## **Creeping and Walking Inflation-**

- Some economists have described upto 3 per cent annual rate of inflation as ‘creeping inflation’.
- If it exceeds 10 per cent, it is called ‘walking inflation’.
- Samuelson has clubbed creeping and walking inflation into moderate inflation.
- According to some economist walking inflation is the warning signal for the occurrence of running or double digit inflation.

## **Running and Galloping Inflation-**

- Running inflation may record more than 100 per cent rise in prices over a decade.
- Thus, when prices rise by more than 10 per cent per annum, running inflation occurs.
- According to Samuelson, when prices are rising at double or triple digit rates of 20, 100 or 200 per cent a year, the situation may be described as 'galloping' inflation.
- Indian economy has witnessed a sort of running and galloping inflation to some extent (not exceeding 25% per annum) during planning era, since the second plan period.





## **Hyper Inflation-**

- Prices rise every moment, and there is no limit to the height to which prices might rise.
- In quantitative terms, when prices rise over 1000 per cent in a year, it is called a hyper inflation.
- Austria, Hungary, Germany, Poland and Russia witnessed hyper inflation in the wake of world war-I.



## **Demand-pull Inflation-**

- According to the demand pull theory, prices rise in response to an excess of aggregate demand over existing supply of goods and services.
- The demand pull theorists point out that inflation might be caused, in the first place, by an increase in the quantity of money, when the economy is operating at full employment level.



## **Cost push Inflation-**

- A group of economists hold the opposite view that the process of inflation is initiated not by an excess of general demand but by an increase in costs, as factors of production try to increase their share of the total product by rising their prices.
- Thus, it has been seen that a rise in prices is initiated by the growing factor costs.



# Causes of Inflation-

- Over expansion of money supply-
- Expansion of bank credits-
- High non development expenditure-
- Huge plan investment-
- Black money-
- High indirect taxes-
- High population growth-
- Natural calamities and bad weather-
- Speculation and hoarding-
- High prices of imports-
- Monopolies-



# Impact of Inflation-

## Impact on

- Creditors and debtors
- Investors
- Fixed salaried class
- Producers
- Middle class
- Savings
- Employment
- BoP
- Taxes