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IMPACT OF INFLATION ON THE ECONOMY

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ABSTRACT

In economic times, 2022 In economics when the general prices of goods and services increase it is called inflation. The task of ultimately resolving these issues lies in the hand of such major central banks only. Deflation is exactly opposite of inflation which occurs when the supply of good and services is more than the supply of money in the country, this lead to decrease in the prices. countries like Rwanda, Chab, Maldives, Gabun, Japan, Bahrain are among the countries with very little inflation. According to the study, the effect of inflation on economic growth changes over time and among countries. the time duration taken for the research was for the last five years as inflation is highly volatile and it changes rapidly so if more periods would be considered the accuracy of the research would have decreased. The target location for research was mainly India as different countries have different rates of inflation and causes might also differ but all the external factors were taken into consideration for research. According to today's report from the U.S. bureau of labour statistics, the consumer price index for all urban consumers (CPI-U) increased by 0.4 percent in September after increasing by 0.1 percent in august. the food index increased 0.8 percent throughout the course of the month as food consumption at home increased by 0.7%

KEYWORDS:- Inflation, Prices, Percent, Supply, Deflation

INTRODUCTION

(The economic times, 2022) In economics when the general prices of goods and services increase it is called inflation. In this each unit of currency buys fewer goods and services. This principal of demand and supply can be viewed positively and negatively. For example, is small amount of inflation indicates that country is developing and its people have adequate income. On the other hand, too much inflation means the inflation is growing more than wages, causing the currency to lose its value. Too little inflation means the countries growth is stagnant and indicates unemployment in country (REUTERS, 2022).

Today's inflation surge is not only felt by developed economies but also by emerging economies. Inflation has come back faster, spiked rapidly than anticipated by major central banks. The disturbance in supply chain due to pandemic, Russia, Ukraine war have been the major contributors to such spike in inflation rates. The task of ultimately resolving these issues lies in the hand of such major central banks only today's inflation surge is not only felt by developed economies but also by emerging economies (SMITH, 2022).

Deflation is exactly opposite of inflation which occurs when the supply of good and services is more than the supply of money in the country, this lead to decrease in the prices. Countries like RWANDA, CHAB, MALDIVES, GABUN, JAPAN, BAHRAIN are among the countries with very little inflation. Economies like USA and Russia are also affected by inflation their rates are high than the central bank targets. Variety of factors such as supply chain disturbances, high energy prices due to pandemic are owing to such inflation. It is believed that these rates will ease down over time but will be more persistent than originally expected (GOLLE, 2022).

In the recent times our inflation is soaring at the high of 7.79% in April of 2022, since May of 2014 and above the forecast of 7.50%. Since February India's retail inflation breached the upper tolerance set by Reserve Bank of India at 6%. This has badly affected the economy which was just recovering from the global pandemic. The increase in prices of cereal, vegetables, meat and fish, oil and fats have badly affected the street food vendors, who are left with no option to increase the prices of their food.

Even the big conglomerates have also expressed the need of price hike, nestle meanwhile Has increased the price of 70g Maggi masala from Rs 12 to R\$ 14. The commodity and crude oils prices are also at its peaks. This has been primarily because of the Russia-Ukraine war. The continuous increase in prices have not only effected the spending habits of individuals but have also made them more cautious of their future spendings. DK Srivastava, chief policy advisor of Ernst and Young India, says the risk of inflation may stay for almost a year." Since the domestic inflation in India is driven by global supply-side rigidities and high petroleum prices, it is likely to persist for at least three to four quarters. Supply-side factors usually take much longer before the situation improve, he says (DAS, 2022).

REVIEW OF LITERATURE

According to certain analytical research, inflation has emerged as a serious concern for academics and decision-makers alike. They described how it impedes the development of the country. They Throughout the previous five years, have done detailed analyses, notably on factors affecting demand and supply sides of the food supply chain food costs. highlighting the effects of the policies on the rising and dropping costs of food items. They the growing agricultural productivity² was highlighted. The Assoc. Ham Eco Pulse research for FY 2009–2010 found that on average, inflation is around 5%. AEP research with the title the rise in prices raised concerns for the Indian economy. energy-related commodities (such as crude oil, coal and natural gas), metals (copper, aluminium and iron ore) plus food (Basha, 2013).

The literature on the connection between inflation and economic growth in industrialised and emerging nations is reviewed in this work, with a focus on theoretical and empirical evidence. According to the study, the effect of inflation on economic growth changes over time and among countries. The study also discovers that the methodology used, the data set used, and the country-specific features affect the results from these investigations. Overall, the analysis shows strong evidence—particularly in developed economies—in favour of a negative link between inflation and growth. Regarding the precise inflation threshold that is necessary for growth, there is still a lot of debate. The majority of earlier research on this topic simply assumed a one-way causal relationship between inflation and economic growth. As far as we know (Akinsola , 2017).

When a nation's in-action level exceeds the 40% cut-off point, it is said to be experiencing a high in-action crisis. Even when the same set of nations is examined, there is still no solid evidence indicating the precise level of immigration that is beneficial or detrimental to economic growth. Khan and Senhadji (2001) used a non-linear square approach to analyse the threshold effect of inflation on economic development for 140 industrialised and developing nations. They projected an inaction threshold of 1 to 3 percent for industrialised countries and 7 to 11 percent for underdeveloped countries using the dataset from 1960 to 1998, respectively (Odhiambo, 2017).

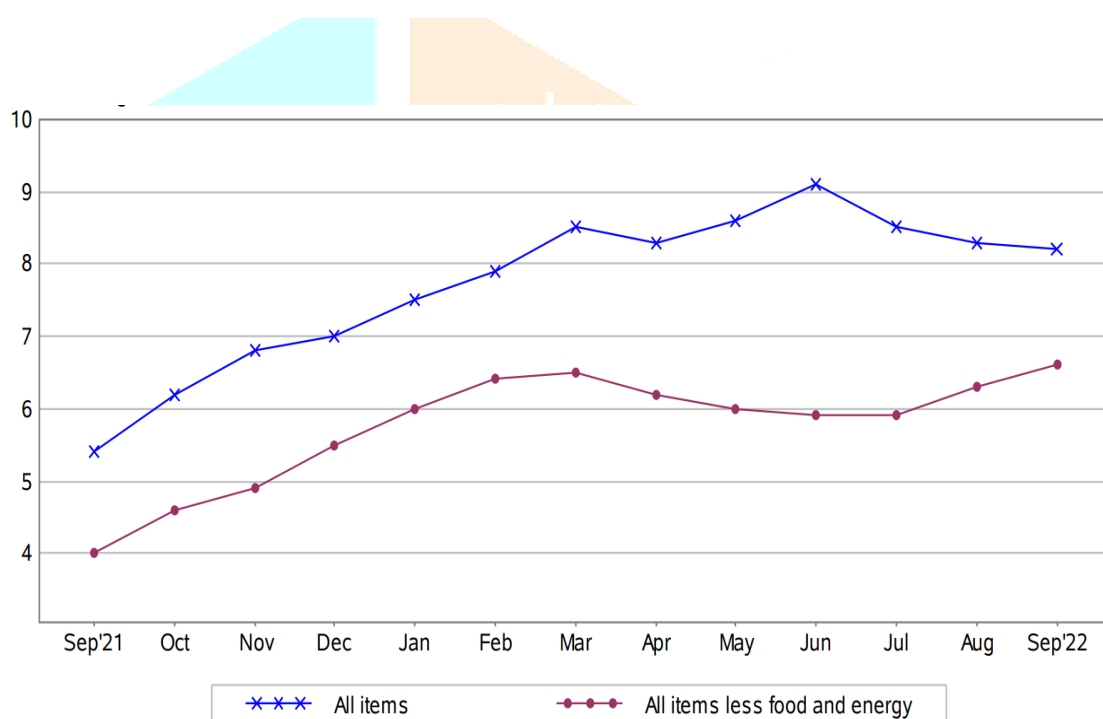
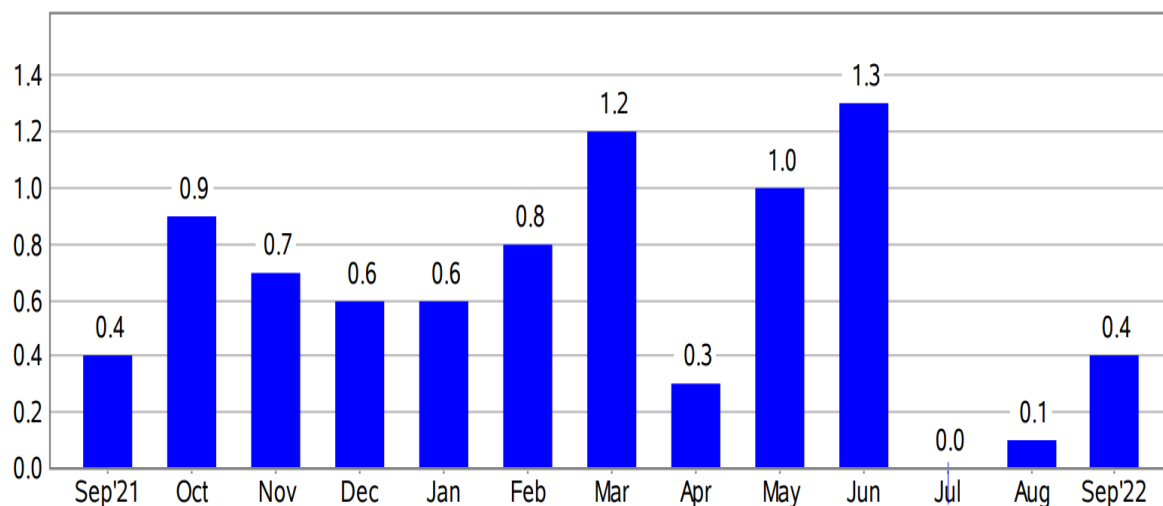
Divergent findings have been found in empirical investigations on the relationship between inflation and economic growth. They reported no association, a positive relationship, and a negative relationship between inflation and economic growth. Fisher (1993) and Barro (1996) have shown how inflation and economic growth are negatively correlated. In their study of the connection between inflation and economic growth for a sample of 70 countries between 1960 and 1989, Paul Kearney and Chowdhury (1997) discovered that there is no causal connection between inflation and economic growth in 28 of the countries, bidirectional causality in 14 of the countries, and unidirectional causality in the remaining countries. Inflation and economic development were shown to be negatively correlated by Bruno and Easterly (1998) (Subrata, 2018).

METHODOLOGY

This is career oriented and done with the idea of highlighting the rise in inflation in recent times and its cause, effect and solutions to provide better conclusions for future generations. Firstly, the research problem was to establish a better understanding of inflation and to develop a cause-and-effect relationship with it. The data collected for research was entirely secondary as it delivers more accurate and reliable information.

The time duration taken for the research was for the last five years as inflation is highly volatile and it changes rapidly so if more periods would be considered the accuracy of the research would have decreased. The target location for research was mainly India as different countries have different rates of inflation and causes might also differ but all the external factors were taken into consideration for research. Before analysis, the dataset was checked for missing data and outliers. The data was then analysed using different analysis methods to conclude it. Lastly, research papers from renowned economists were also taken into account.

ANALYSIS AND DISCUSSION



According to today's report from the U.S. Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) increased by 0.4 percent in September after increasing by 0.1 percent in August. The total items index rose 8.2% over the previous year, before seasonal adjustment.

The largest of numerous factors that contributed to the monthly seasonally adjusted all items increase were increases in the indexes measuring shelter, food, and medical care. A decrease in the fuel index of 4.9% partially countered these increases. The food index increased 0.8 percent throughout the course of the month as Food consumption at home increased by 0.7%. During the month, the energy index decreased by 2.1 percent as the index for gasoline fell, but the indices for natural gas and electricity rose.

Similar to August, the index for all products except food and energy increased by 0.6% in September. Among those that rose over the course of the month were the indices for housing, health care, auto insurance, new cars, home operations, and education. Some indexes were present that fell in September, such as those for used automobiles and trucks, clothing, and communication

In comparison to the 8.3 percent gain for the 12-month period ending in August, the all-items index climbed by 8.2 percent for the 12 months ending in September. Over the previous 12 months, the all-items index that excludes food and energy increased by 6.6%. The energy index climbed 19.8% over the previous year. September, which represents a rise that is less than the 23.8% rise for the month of August. the meal index grew 11.2 percent in the previous year.

CONCLUSION

In this research study through various collections of data and reviewing research papers of different authors, it can be concluded that inflation is not an event which can be overlooked by central authorities all around the world. To ensure that inflation is favourable more emphasis should be paid to research and measure factors influencing it so that it can be controlled during uncertainties like covid. Inflation is an inescapable phenomenon and every nation all around the world has an increment in the general price level of its economy which is, in fact, good for economic growth but few countries have it beyond the acceptable rate which is an indication of its terrible economic conditions and India is sadly one of those countries.

We can draw the inference that the recent hike in the percentage of annual inflation in India is mainly due to external and unforeseen events like covid-19, Russia Ukraine war, the increase in crude oil prices, etc. Finally, to control inflation and boost the Indian economy to heights the government needs to improve its foreign policies so that the effect of such external factors can be minimised also the corruption and the shortcomings of the processes to maintain the money supply needs to be drastically refined to have a stable and rapidly growing economy.

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