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Inflation Is A Complex Economical Problem

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Abstract –

Inflation is a critical economic problem of a country. Inflation is very essential for the overall economic development of the country. Because it is necessary to circulate money in the country to keep the economy of the country moving and for the circulation of money money is printed by the central bank of the country. Money is very important for the development of the country. But money printed above a certain limit quickly results in inflation. Inflation is like a stealth thief for our country. Inflation indirectly robs the economy. Does not allow the fruits of development to reach the people. It creates a major obstacle in the economic development goals of the country. Thus inflation is a universal economic complex problem. In the present research article inflation is a complex economic problem. So this research article has to discuss the overall impact of inflation In Economy.

Key Word – Inflation, Price Rise, Central Bank, Monetary Policy, Public Debt,

Introduction –

Inflation means "a sustained and comprehensive annual increase in the price level of an economy". Inflation A condition in which the internal value of money is constantly eroded. According to Keynes "A continuously rise in the price level after full employment is reached is called inflation." As the demand of the product exceeds the supply of the product, the price increases continuously. A condition in which unlimited money runs after a limited supply of goods is called inflation. Cost push inflation is more damaging to the overall economy of the country Demand push inflation. Because when the cost of production increases due to the increase in the price of raw materials and the increase in wages, the profit of the producers decreases, so the price of the product increases to maintain the profit. This is called cost push inflation. Thus this create a vicious cycle of cost push inflation which results in inflation. Thus monetary policy is formulated by the central bank to keep inflation under control. A country's central bank is the governing body for controlling the flow of money. Which provides money to the government in exchange for buying security from the government for developmental works. And this money is used by the government in productive and non-productive activities. But if this money is used in limited and productive activity it is a good thing but if this money is used in unproductive and unlimited way then it results in inflation.

The Vicious Cycle Of Inflation –

Inflation occurs when the government continuously takes financial credit from private firm/individuals people by issuing securities for development work and fails to achieve the development target. Because of this incident, the internal monetary value of currency continues to depreciate. A country's financial institution or banks show inability to pay interest resulting in the government declaring bankruptcy as it fails to pay interest to investors. Creditors suffer more than debtors especially in times of inflation. The main reason for this is that the internal value of money decreases. The main cause of inflation is the increasing amount of monetary liquidity in the country. Due to inflation, the middle class in the country is more affected. The prices of necessities good of life are constantly increasing. Banks print currency notes of larger Value. So that is resulting in inflation. Rising prices of food items lead to starvation due to lack of sufficient money for the people. There is an anti-government movement in the country. Anarchy spreads in the country. The internal value of the country's currency falls to zero. The general public will suffer due to which the welfare of the country will decrease. There is a deficit in the balance of payment and government budget. So the government prints money back to cover the deficit. This causes back inflation. This vicious cycle of inflation continues. Hence, the central bank insists on printing less currency and tight regulation of monetary policy to control the vicious cycle of inflation in the country.

Complexity Of Inflation –

Inflation occurs when the government takes a wrong economic decision in the opposite direction. For example, even if the scheme does not get any particular yield, money is invested in it, so this scheme is a failure. Interest rate must always be maintained If the interest rate is lower than a certain limit and the bank fails to maintain it then it results in inflation. Inflation also occurs due to some unnecessary free schemes given by the government to people. High foreign investment in which the government borrows continuously from a foreign financial institution or government leads to a decrease in the country's foreign exchange reserves, thereby depreciating the value of the local currency, leading to inflation. Non-development expenditure Inflation is caused by continuous spending by the government on non-development things like war and defence. As the currency of the country has a high amount and the amount of notes is high, the rate of inflation is high in country. To make up for the deficit in the balance of payment, the central bank prints money through deficit financing so that the money supply increases thereby reducing the internal value of the currency resulting in inflation. Decrease in production of a commodity does not increase the supply but increases the demand thereby increasing the price of the commodity which results in inflation. In the foreign trade of the country, imports are continuously increasing than exports, which leads to a deficit in the balance of payment of the country. The exchange rate has the opposite effect. The internal value of the currency are depreciates in county. So inflation comes.

Inflation In The Context Of India –

The Central Bank of India along with the Monetary Policy Committee, which meets four to six times in a financial year to control inflation, comes up with various interest rates. So that inflation is controlled and Monetory liquidity is maintained in proper proportion. In India earlier inflation was measured on the basis of WPI but after 2015 inflation is measured on the basis of CPI. The inflation target in India is between -2% to +4%. The latest inflation Rate is 4.81% (CPI June-2023). Currently, RBI Governor Shaktikanta Das called the then Monetary Policy Committee meeting in June to stabilize the interest rates.

Measures To Control Of Inflation –

The central bank of the country should properly regulate the interest rate so that the liquidity of money is properly maintained. Commercial banks and central banks keep high interest rates on loans so that the balance of money in the economy remains. It is necessary to maintain foreign currency reserves at an appropriate level. The government needs to properly regulate and control wages and prices. A central bank should create credit at an appropriate rate. The government should avoid undue and unproductive financial expenditure. Borrow foreign debt very little and if possible take domestic debt as foreign debt is more burdensome than domestic debt. Keeping tax rates high during booms keeps money in the economy. Efficient functioning of the public distribution system so that the prices of the essentials of life are maintained at reasonable levels helps in controlling inflation.

Literature Review-

Orphanides, Athanasios. & Solow, Robert. (1990). In the long run, different amounts of money supply affect inflation rates in different ways. The main cause of hyperinflation is creating artificial prices by hoarding essentials. So the price keeps increasing. Hence the pace of inflation accelerates. Because inflation first affects the monetary variable then it affects the real variable only.

Bruno, Michael. & Easterly, William. (1996). The last decades of the twentieth century saw a large increase in inflation along with income inequality in most countries. Because a direct correlation was found between income inequality and inflation. The impact of inflation is more pronounced on the lower income group than on the higher income group. Inflation in most countries is at very low levels before the crisis. During a crisis, inflation rises twice as fast as before. then decreases. Thus the empirical study between inflation and crisis becomes a puzzle.

Bruno, Michael. & Easterly, William. (1998). Inflation adversely affects economic growth. A period of crisis is followed by a contractionary stability leading to an increase in inflation. Inflationary crisis is associated with black market. Which has a negative effect on growth. This takes away the fruits of economic growth. People used to say that earlier we used to carry a currency note and buy things from the market by filling a bag, but now even if we carry a bag by filling a currency note, even one thing can be bought with difficulty. The government should use deficit financing as a tonic in tough times to sustain the growth of the country. But if the indiscriminate use of deficit financing leads to inflation.

Calderon, & et, al. (2008). Inflation is a complex economic problem. It is the responsibility of the Central Bank of the country to stop it. High inflation is caused by business cycle, exchange rate, structural and institutional etc. Inflation is controlled by maintaining the country's money supply ratio through the country's overall economic policy. After the stagnant inflation of the last decade, most countries have given great importance to price stability. Inflation has a negative effect on the long-run output growth rate. An important objective of macroeconomic policy is to achieve long-term economic growth without inflation. However, its operation varies from country to country.

Gupta, Kirti. & Siddiqui, Fahad. (2014). Inflation in India was measured by WPI before 2015 then by CPI. This is done according to the different weights of some items in random numbers. The base years for the measurement of this figure are different. As the base year in CPI is 2012 i.e. calendar year. While in WPI the base year is 2011-12 ie financial year. Also the interest rate is fixed by the Central Bank of India. However, WP and CPI come out of different ministries. The central bank considers price stability as an important objective to keep inflation under control. There is a causal relationship between actual inflation and projected inflation in different countries. But this does not determine the growth rate.

Conclusion –

Inflation also encourages the growth of the country to some extent. So it is very important to use deficit financing like a medicine. As too much medicine causes harm to the human body. Also excessive deficit financing is a loss for the economy as a whole. Government should avoid unproductive expenditure and give more emphasis on productive expenditure. In order to properly regulate monetary liquidity, the central bank should determine the various interest rates as part of the monetary policy in a timely manner with respect to the money supply over time. So financial stability will be maintained in the country.

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