Non monetary factors causing inflation

“ INFLATION” is an situation of speedy and generous or constant boost in the level of prices along with subsequent detoriations in the rate of money above a period of point in time. A condition in which the measurement of money is declining, that price are getting higher.

The conduct of universal prices is measured throughout price incidies. The movement of prices indices reveal the route of inflation or deflation in the financial system. As Lener says, a price rise which is unpredicted and not correct is inflationary.

Thus, inflation is statiscally measures in expressions of percentage increase in the price indicators, as a charge percent unit of time , usually time or month.

generally, the wholesales prices index’s (WPI’s) figures are used to evaluates inflation. otherwise, the consumers prices indexs (CPI’s) or the cost of livings indexs numbers can be adopt in measures the price of inflation.

TWO MAIN TYPE OF INFLATION :-

â-. DEMAND PULL INFLATION

â-. COST PUSH INFLATION.

1. DEMAND PULL INFLATION- AS PER the demand pull theory price increased in reply to an surfeit of the collective demand more than accessible supplies of goods , sevices. therefore increased rates, also follows by grow in wages , hence increased rates. This lead’s to risen in factor expenditure , increased income which leaded to growth in demand raised price .

Causes:-

â- raise in public expenses , increased in money supply.

â-Increased in investment’s increased In price’s.

â-Increased in subsidiary proclivity consumed.

â-Increased Export’s and supplies BOP’s

â-changing Resource’s from the consumer’s product region to the capital goods sector’s or the military zone.

COST PUSH INFLATION:-IN THIS THEORY a rised in wages’s leads to a risen in the totality cost of production and a consequent rise in price level , because prices are based on costs. It has been said that a rise in wages causing a risen in prices:-

Which would increase ehusiasm the workers to demand higher wages and thus increase; s cost’s.

Definitely every increase’s in cost’s such a risen in the price’s of import’s components or increased in indirect tax’s, may initiated a cost push inflation’s firstly , it is waged push pressure’s which tend’s to accelerated the risings priced spiraled

CAUSES OF INFLATION

â-above expantions of money supplied

â-quick expansion’s of bank credit’s

â- High doses of arrears Financing may causes reckless spending.

â- Continuous increase in public expenses especially growth of defence and non- develop expenses .

â- Black money.

â- High indirect tax.

NON MONETARY FACTORS CAUSING INFLATION:-

â- High population growth.

â- Natural calamities and bad weather condition.

â- Speculation and Hoadings

â- High prices of import.

â- Monopolies : profits and unfair trade practice.

â- Underutilization of resources

INFLATION TREND IN INDIA

To calculate the inflation rate india use the wholesale price index (WPI). The use of WPI measure the changes inaverage price level of goodstraded in wholesale market. In india a total of 435 commodities of data in price level is tracked through WPI which is an indicator of movement in price of commodities in all trade and transactions. In recent speech by subir Gokran . RBI Deputy Governor . threw interesting light on the growth-inflation circle of the Indian economy and the “ policy commitment to maintain a balance between growth and inflation in the short run, while forcing high growth with lower inflation over long period of time”. In another speech. Deepak mohanty Executive dir the sector at RBI, experience the nine incident of double eight inflation has reduced over time “, He points to the fact that despite recent rise in food prices , inflation inflation rate are going downward trend in india in recent decades.

TREND OF INFLATION FROM 1991 TO 2012 IN INDIA

Let us see that the rate of inflation in india, we called this the rate of inflation based on the consumer price index, or(CPI) for short. The Indian CPI shows the change in price of a standard package of goods and services which Indian households buy for consumption. For measuring inflation, an detail information is made of how much the CPI has risen in percentage terms over a given period compared to the CPI in a preceding period.

â-IN The above graph we can see the trend of inflation starting from 1991 to 2012 , as it shows

that the inflation rate was highest in 1991 and 2010 and it was lowest in 2000 and 2002 and currently the inflation rate is 7. 5% to 8. 5 %. the inflation graph shown above shows that inflation varies from year to year based on country’s growth and development.

REASONS FOR VARIATIONS

Currently, the mathematic theory of money is widely appproved as an accurate structure of inflation in the long run. similarly, there is now specific agreement among economists that in the long run, the inflation rate is essentially dependent on the growth rate of money supply. However, in the short and medium term inflation may be affected by supply and demand pressures in the economy, and influenced by the relative elasticity of wages, prices and interest . In the economists view, prices and wages adjust at different rates, and these differences have enough effects on real output to be “ large period” in the view of person in an economy. There are many examples for variation in inflation in Indian economy they are as follow,

(a)Natural calamities like drought or flood showed an dangerous trend. Increase in foreign oil rates,

(a). India taken money from International Monetary Fund (IMF). To overcome

The monetary issues .

(b)Oil seeds and Edible oils. Adverse impact of destruction on Agri products leads to rising in prices – mainly Increase in oil rates double during the period. The 1st 6 months of Indias fiscal 2002-03 (beginning April 1, 2002) shows increase in inflation highly due to increment in price-rates.

(c) At the end of the fiscal 2002-03 inflation was up by 3. 3 percentage . In the glimpse of overall variation in wholesale price inflation, the inflation in fiscal 2002-03 was covered by non-edible food items unlike preceding years.

(d)Rates of close ALTERNATIVES for rice are increasing upgrade as well: wheat, maize, and soybeans are all at record highs Food inflation can be explain as a consistent increase in the price level of all agri edible items.

(e)The Reserve Bank of India (RBI) has introduced policy rates 13 times since the starting of 2010 to control the price rise. Food inflation has dropped sharply in the last four weeks. It had come down in single digit for the week ended November 12 from 12. 21 percent.

IMPACT OF INFLATION ON INDIAN ECONOMY

(A)Effects of inflation on Price.

(a) Over-expansion of money supply i. e. excess liquidity in the economy leads to inflation .– Expansion of Bank Credit .– Deficit Financing: The high doses of deficit financing which may cause reckless spending.– A high population growth leads to increase in demand and money income and cause a high price rise.– Excessive increase in the price of fuel or food products due to political, economic or natural reasons.

(b) Western economies like us are consuming on a massive scale leading to huge trade imbalance.

(c) As government has reduced protection and subsidies on agriculture that results into high cost of energy which directly translates into high cost of cultivation and therefore high prices of output.

(d) The problem of inflation is directly linked to the price of crude oil imported by our country. India’s 70% oil needs are fulfilled through imports.

(B)Effect of Inflation on different Industries.

(1 Banking:- The RBI may tighten the monetary policy because of rising inflation . interest rate are rising, compelling the banks to raise interest rates, which will disturb their business growth . Inflation increase-decrease remain high with finance ministry officials indicates the rate could be up to 13 per cent in the near future course of time.

(3Automobile Industries:- when the inflation increases price of auto mobile sector also increases, which leads to increase in price of two wheeler . four wheeler etc

(4)Share Market:- At the time of inflation stock market is also effected all the foreign investor will start to withdraw their money and sale their stock.

So, the different industries effected by inflation and as inflation is contiuous increase in price it increases overall price of products , goods and services.

CO-RELATION BETWEEN GOLD PRICE CRUDE OIL PRICE AND DOLLAR PRICE IS AS FOLLOW:-

â-Crude oil is the worlds most commonly traded commodity and its price is most volatile in commodity market while gold is considered the leader in the market of precious metals.

â-The relationship between oil price and gold price is known to be positive and the two following points regarding these are:-

(a)The oil price influences the gold price which implies that changes in the gold price may be monitored by observing movements in the oil price.

(b)Oil price and gold price are only co-related in this regard the fact that the oil price and the gold price move in sympathy is not because one influence the other, but because they are correlated to the movement of the driving factors.

â-It is a common fact that both oil and gold are traded in U. S dollar . Therefore , volatility of the u. s dollar may cause fluctuations of international crude oil price andgold price to move in the same direction.

â-The continuous depreciation of the u. s dollar might force the volatile boost of crude oil price and gold price.

â-Zhang et al (2010) bring evidence of high co-relation between the u. s dollar index to the price changes of both commodities and geographical events are another factor that may impact the price of crude oil and gold simultaneously.

â-when u. s dollar gets stronger, we can buy gold for few u. s dollar and when value of u. s dollars decreases it takes more dollar to buy gold.

â-change in the price of gold leads to change in value of u. s dollar.