Cause of price rise in india

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The value of a rupee does not stay constant when there is inflation. The value of a rupee is observed in terms of purchasing power, which is the real, tangible goods that money can buy. When inflation goes up, there is a decline in the purchasing power of money.

Causes for rise in prices in India

(A)Demand Pull factors

(1). Monitoring government expenditures

It implies a growing public demand for goods and services and thus, is an important factor for the rise in prices. Besides continuous increase in the government expenditure has the effect of putting in large money incomes in the hands of the general public-expenditures of te government becomes income for the people, thus increases inflation.

(2). Deficit Financing and increase in money supply

An important factor for rise in prices is the expansion of money supply. In fact without monetary expansion inflation cannot be sustained at all for any length of time. The government of India is responsible for the inflationary situation in the country through its policy of deficit financing and the state government contributed their share through their persistent financial indiscipline, high expenditures and unauthorized over-drafts.

(3). Role of Black Money

There is a large accumulation of unaccounted money in the hand s of income-tax evaders, smugglers, builders and corrupt politicians and

government servants. A large part of this money is used in buying and selling of real estate in urban areas, extensive hoarding and black marketing in many essential and inflation sensitive goods such as sugar, edible oils, etc.

(4). Uncontrolled growth of population

Increase in population leads to gap between demand and supply of all consumer goods and services which leads to increase in prices.

(B) Cost-Push Factor

(1). Taxation in rising cost

It mainly consist of rise in wages, profit margin and rise in other costs. The government and the public sector were also responsible to large extent for pushing up the price level in the country. The government imposed commodity taxes and gave an opportunity to the trading classes to raise the prices.

(2). Fluctuations in output and supply

It means the fluctuations in the food grains output. In 1983-8, food grains production touched a high level of 152. 4 million tons but due to drought it fell sharply to 138. 4 million tons in 1987-88. In 1996-97 again food grains touched production level of 199 million tons but fell to 192 million tons in 1997-98. In 2001-02, food grains touched the peak level in 212 million tons but in 2002-03 It sharply declined to 174. 2 million tons but again recovered to a level of 212. 2 million tons in 2003-04. Power breakdown, strikes and lock outs and shortage of transport facilities are major factors for lower rate

of production of manufactured goods. With rising demand the producers are in a position to push up the prices of their products.

Control of Inflation

(A). Demand management

The price policy since 1973-74 has relied on monetary and fiscal measures with a view to check the demand of the public for goods and services.

(1). Fiscal Measures

The government has taken decision to control on its own expenses and keeping in check both its revenue deficit and fiscal deficit. It has been a major instrument of inflation control.

(2). Monetary measures

The monetary policy of the RBI consist of extensive use of general and selective credit-control measures. The main aim was to restrict bank-credit against inflation-sensitive goods and to influence the cost and availability of commercial bank credit.

(B). Supply Management

Supply management is concerned with the volume of supply and its distribution system. The government has focused its attention in securing greater control over the prices of rice, wheat, sugar , oil and other commodities of mass consumption. The government tries to put control on the undue increase in the price of essential commodities.

(1). Fixation of maximum prices

Eliminating the incentive for hoarding and speculative activity in foodgrains the state government were asked to fix the retail and wholesale price of foodgrains. Prices of goods like cloth, sugar, vanaspati etc were also controlled.

(2). The system of dual prices

The government has adopted a system of dual prices in the case of goods like sugar, cement, paper, etc. Under this system, the weaker sections of the community are supplied these goods through fair price shops, at controlled prices and rest are allowed to purchase their requirements at higher prices in the open market.

(3). Increase in supplies of foodgrains

The government used to increase supplies of foodgrains and other essential goods in times of internal shortage through larger imports.

(4). Public Distribution System

The PDS serves two purposes. Firstly, It helps to hold down prices and secondly it provides essential commodities to low income groups at relatively low prices. Whenever the PDS is hard pressed due to inadequate supply, prices of essential goods tends to rise. PDS has been strengthened and extended to rural areas.

Impact of Inflation

Inflation is the continuous increase in the price of goods and services over a period of time. If money supply increases the investment increases, if investment increases employment increases, if employment increases household income increases, if household income increases consumption increases, if consumption increases demand exceeds supply therefore it is the situation of INFLATION. In the year 1990-91 there was a high inflation of 13. 81% which was not good for the economy. The government has to take decision to control the inflation. In 1995-96 the inflation started reducing. But again there was a high inflation in 1997-98 for which the government has to think again. As the population was increasing the consumption was also high. The supply was not be met by the government and the demand was increasing. In year 2008 to 2010 the inflation was again in the two digit and it effected a large part of the nation. Too much inflation is not good for the economy and it should also be not too less. If the inflation is very low the consumption has to be reduced and if the consumption reduces the house hold income reduces, and finally a situation will occur where there be decreasing money supply.

Co-relation between gold price, crude oil price & price of dollar

Crude Oil Price and price of Dollar

The rise in oil prices it is the result of the continued fall of the dollar. As the value of the dollar falls and oil producers demand more and more for each barrel, the price of crude goes up. The greatest component of the price of gas is the cost of crude. An increased oil price results in increasing inflation, which negatively impacts the global economy, particularly oil-dependent

economies such as US. Apart from increased transportation, utility and heating cost, the higher prices eventually reflected in every finished product as well as food and commodities in general

Oil Price and Gold Price

High oil price is bad for the economy, which adversely affects the growth of the economy . Therefore , investors look for gold as one of the best alternative assets. To disperse market risk and maintain commodity value, dominant oil exporting countries use high revenues from selling oil to invest in gold. Since several countries including oil producers keep gold as an asset of their international reserve portfolios, rising oil prices and hence oil revenues may have implications for the increase in gold price. This holds true as long as gold accounts for a significant part in the asset portfolio of oil exporters and oil exporters purchase gold in proportion to their rising oil revenues. Hence, the expansion of oil revenues enhances the gold market investment and this causes price volatility of oil and gold to move in the same direction. In such situation, an oil price increase leads to a rise in demand and the price of gold. Inflation channel seems to be the best and most common way to explain the linkage between oil and gold markets. A rise in crude oil prices leads to an increase in the general price level. When the general price level goes up, the price of gold, which is also a good, will increase. It gives rise to the role of gold as an instrument to hedge against inflation and gold is indeed renowned as an effective tool to hedge against inflation. Therefore, inflation, which is strengthened by high oil prices, causes an increase in demand for gold and thus leads to a rise in the gold price.

Conclusion

It can be seen that gold price, crude oil price and price of dollar are co related to each other and how increase or decrease in one of them could affect the economy. The government has to take steps to control the situation.