ISSN 2350-1049

International Journal of Recent Research in Interdisciplinary Sciences (IJRRIS)
Vol. 1, Issue 3, pp: (9-13), Month: October - December 2014, Available at: www.paperpublications.org

THE CHALLENGE OF INFLATION AND ITS CONSUMPTION RELATION

ASHOK DASS VAISHNAW

Research Scholar, Department of Economics
Jai Narain Vyas University, Jodhpur, Rajasthan, India.

Abstract: **Indian economy is a developing economy and it faces many challenges from all directions. It also faces some extra challenges not only economic but also from other sectors of society. In this paper the challenge of inflation and its consumption relation is explained. Many economic experts and political world leaders accused Indian consumers for the world inflation rise. Indian particularly middle and lower income families feet the heat of the inflation more intensively than higher income group peoples. Inflation is basically problem of demand and supply equation, but many other factors also involved in it. Some dilemma of the inflation is presented in this paper. Not only people of India but also the central and states governments are also afraid of inflation. Many economists we well as politicians assumed that inflation is affecting the consumption or the consumer is the cause of inflation.**

Keywords: **Inflation, developing economy, consumption, middle income group, lower income group, higher income group, demand, supply, inflation dilemma.**

1. INTRODUCTION

i. Inflation: According to Alfred Friedman “inflation always and everywhere is a monetary incidence”. As per this statement one can understand that inflation is a simple situation, but it not as simple as it quoted. In modern age of economic development and growth, every country tried to win the race. But economics of the development is a very difficult task. And balance of supply and demand is the only rule of the economics that creates the original picture. So every economy of the world is work hard to maintain the pace of the growth and development. Many economic problems appear in that course. A well experienced leader always takes necessary decision on the appropriate time. So the developmental process do not disturbs.

It was the first time in history of the economics that inflation was identified only by the neo-classical economists. They indicated the when the monetary supply is excess then the prices going to galloping called the inflation arises.

The Keynes says that supply of money is exceeds the limit of the full employment situation than the inflation appears. And prices rises proportionately to the money supply. In this statement he insists on the demand side ignores the cost side. As many as causes discovered of the inflation the types of inflations also identified. Like demand-pull inflation, cost-pull inflation sect oral or demand –shift inflation structural inflation open and suppressed inflation, stagflation etc.

Inflation arises by many reasons, but those causes can be classified in the mainly in two parts, factors the affects the demand and factors affects the supply. So that is the two areas where economists work to curb the inflation. In sort in am going to explain the some of them reasons here.

***ii. Factors that affect the demand in the economy*:** Increase in the supply of the money in the economy, increase in the public expenditure, fiscal deficit arrangements, payment of the public debt, and black money.

***iii. Factors the affects the supply in the economy*:** Shortage in the production factors, natural calamities and artificial shortage.

ISSN 2350-1049

International Journal of Recent Research in Interdisciplinary Sciences (IJRRIS)
Vol. 1, Issue 3, pp: (9-13), Month: October - December 2014, Available at: www.paperpublications.org

As a developing country India is very critical situation to address the inflation problem. Because the there are limited measures in the hand of the economist as a developing country to control the inflation in the economy. It depends on the political leadership to decide the measure that is they going to use. Because before I told that measures to control the inflation are both sides of edge. So it is to be careful to use them. As the historical experience shows the developmental process and slightly inflation is the unavoidable condition.

It would be appropriate to mention the some of the measures that a decision maker of a developing economy can take measures to control the inflation. These measures can be divided in the mainly in the four categories. As they are , monetary measures to control the money supply in the economy, fiscal measures to control the government's revenue, physical measures like control prices directly and rationalize the commodities and take steps increase in the supply.

2. METHODOLOGY

The main task involved in this paper is to identify the inflationary conditions that arise in the Indian economy and in the contemporary inflation in the Indian economy and the demand-pull inflation is the real reason. For this purpose three parameters of the economy GDP, population growth and inflation were analyzed in this paper. The data related to GDP, populations and inflation since 2005 to till date are collected from primary sources and presented in tabular form to analyze the trend and relation among these parameters.

This study based on the secondary data which is available from varies government agencies and research paper references. The information is also derived from existing data. The analyze them to prove the hypothesis. I consider the GDP growth rate, population growth rate and inflation increase rate to understand the inflation dilemma. This a simple study to justify the statement.

3. OBSERVATIONS

In this paper attempt was made to find out whether any relation exists among GDP, inflation and population in India. For this purpose the data related to GDP, inflation and population of India since 2005 are collected and are shown in Table 1.

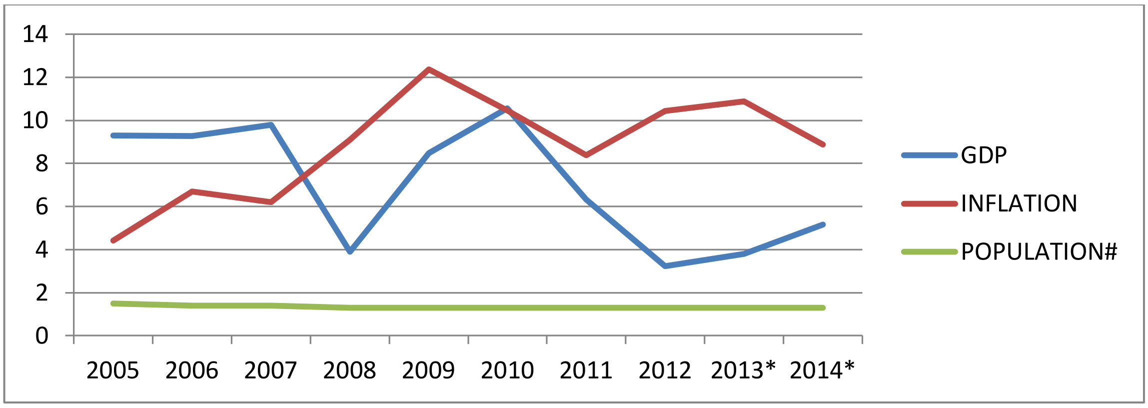
Table no. 1: GDP, Inflation rate and Population of Indian since 2005 to till date

YEAR	GDP	INFLATION	POPULATION#
2005	9.29	4.41	1.5
2006	9.26	6.70	1.4
2007	9.80	6.20	1.4
2008	3.89	9.10	1.3
2009	8.48	12.37	1.3
2010	10.55	10.45	1.3
2011	6.33	8.39	1.3
2012	3.24	10.44	1.3
2013*	3.80	10.88	1.3
2014*	5.15	8.88	1.3

All figures are in percentage

ISSN 2350-1049
International Journal of Recent Research in Interdisciplinary Sciences (IJRRIS)
Vol. 1, Issue 3, pp: (9-13), Month: October - December 2014, Available at: www.paperpublications.org

#Population growth:-annual population growth rate for the year t is the exponential rate of growth of midyear population from year t-1 to t, expressed as a percentage.*these data are predictions for the year on the basis of previous trends.



Graph 1 GDP, inflation rate and population of India since 2005 to till date

4. RESULTS

i. GDP adjusted to inflation :

The effect of inflaiton on GDP with adjustment is shown in Table 2. The we will analyse the status of the production or supply. The table 2 and graph 2 shows that the GDP is quite compete with the inflation. In 2005 the GDP growth rate was 9.29 percent which reasonably good growth rate but the inflation was quite lower as 4.41 percent, thus growth rate beats the inflation effects well. In 2010 that GDP growth rate was 10.55 percent and inflation rate was 10.45 percent, it seems neck to neck situation. But in 2012, the GDP growth is 3.24 percent but the inflation was much higher as 10.44 percent which shows a adverse situation. For five years from 2005 to 2010 the GDP growth rate is higher than the inflation rate. So we may say that the supply side is the not a proble for the inflation rise.

Table 2: GDP, Inflation and adjusted GDP to Inflation since 2005 to till date

YEAR	GDP	INFLATION	ADJUSTED GDP TO INFLATION
2005	9.29	4.41	4.88
2006	9.26	6.7	2.56
2007	9.8	6.2	3.6
2008	3.89	9.1	-5.21
2009	8.48	12.37	-3.89
2010	10.55	10.45	0.1
2011	6.33	8.39	-2.06
2012	3.24	10.44	-7.2
2013*	3.8	10.88	-7.08
2014*	5.15	8.88	-3.73

All figures are in percentage

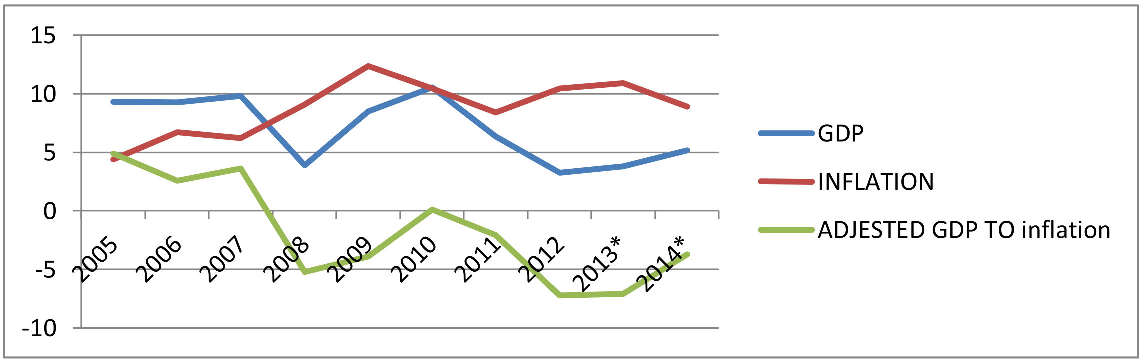


Fig. 2 GDP, Inflation and adjusted GDP to Inflation since 2005 to till date

ISSN 2350-1049

International Journal of Recent Research in Interdisciplinary Sciences (IJRRIS)
Vol. 1, Issue 3, pp: (9-13), Month: October - December 2014, Available at: www.paperpublications.org

ii. GDP adjusted to the population:

To observe the supply side of the inflation causes, we observe the Table 3 and Graph 3, given below which shows the the rate of population increase is very low compare to the GDP growth rate. In 2005 the GDP growth rate is about 9.29 percent and population increases very low about 1.5 percent per year. And in 2012 the GDP growth rate is though low about 3.24 percent but the rate of population increase is also lower about nearly 1.3 percent per year. So by this illistration, we may agree to believe that the demand side is not so aggrasive for the increase the inflation. The population is increasing so the new consumers is going to add the economy, naturally the demand will increase. So the consumption is not the problem for the inflation. Because it is defused by the growth rate of the GDP.

This analysis will not to be justified if we not to consider the inflation effects on the GDP. So we have to look on the relation of the GDP and the inflation. For this purpese is we have to look on this relation. This is the next point ot discuss.

Table 3:GDP, population and adjusted GDP to population since 2005 to till date

YEAR	GDP	POPULATION#	ADJUSTED GDP TO POPULATION
2005	9.29	1.5	7.79
2006	9.26	1.4	7.86
2007	9.8	1.4	8.4
2008	3.89	1.3	2.59
2009	8.48	1.3	7.18
2010	10.55	1.3	9.25
2011	6.33	1.3	5.03
2012	3.24	1.3	1.94
2013*	3.8	1.3	2.5
2014*	5.15	1.3	3.85

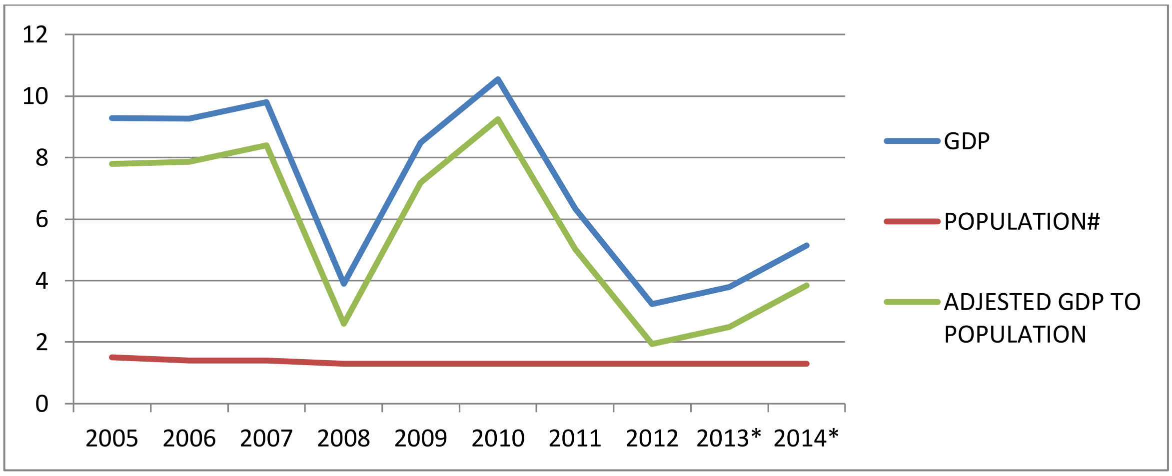


Fig. 3 GDP, population and adjusted GDP to population since 2005 to till date

iii.The relation of the adjusted GDP to inflation and adjusted GDP to population:

In this segament we have to consider the the situation where which of them are the stronger, supply or demand. The below Table 4 and Graph 4 show that the data of adjusted GDP to the population is positive ant quite favourlable. In 2005 the it was 7.79 percent and 2012 was 1.94 percent. Throughout the period the data of the adjusted GDP to the population was positive. Natuarelly the increased GDP means the the availibility of the goods and sevices will favuarable and not to cause to the increase in the inflation.

But when we adjust the GDP to the inflation, it is not so good situation. In the 2005 the adjusted GDP to inflation is 4.88 percent, which is beating the inflation effect very considerable amout. But on 2008 this data was -5.21 percent and there after it was in negative mode and that is not good to the economy. Now the question is that what is the reason for the inflation increase. Earlier discussion we have understand the the consumption is not the real and only problem for the inflation increase. This is not a contradiction situation but when we see the data of the year 2008. It is a break point for the analysis. Because it is the a very problematic year for the world economy. It is the year of financial crisis in the over all world and it effects almost all the economies. So the Indian economy is not an exception.

Table 4:Adjusted GDP to inflation and adjusted GDP to population

YEAR	ADJUSTED GDP TO POPULATION	ADJUSTED GDP TO INFLATION
2005	7.79	4.88
2006	7.86	2.56
2007	8.4	3.6
2008	2.59	-5.21
2009	7.18	-3.89
2010	9.25	0.1
2011	5.03	-2.06
2012	1.94	-7.2
2013*	2.5	-7.08
2014*	3.85	-3.73

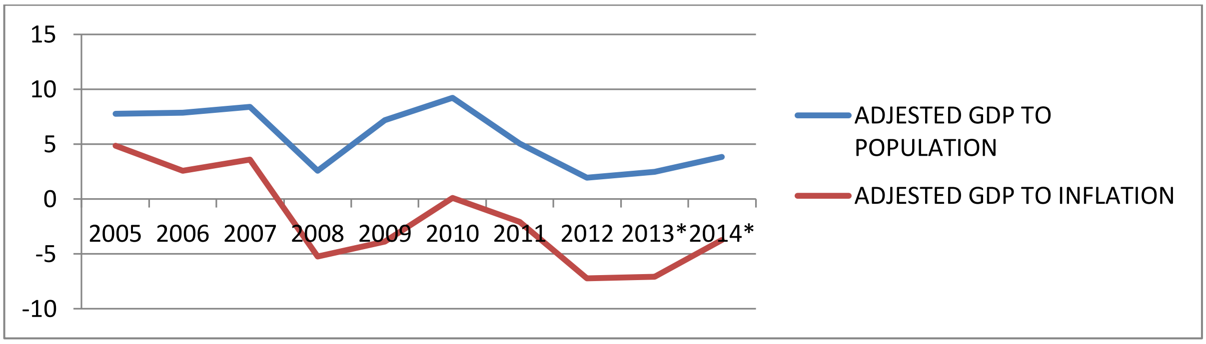


Fig. 4 Adjusted GDP to inflation and adjusted GDP to population

5. CONCLUSON

Finaly when we consider overall condition of the indian economy, we se that the population in increasing but in negative pace and the GDP is quite good phase. There is not the consumption is the problem for the inflation incease. For a develovping country, it is an unavoidable condition to depress the inflation to zero. The growth factor is a area where the demand is very high. And but it is our right for the development of our people. It can not be supresssed by the developed economies.

REFERENCES

[1] IMF, WEO Outlook Database, October, 2013 (as on 15th October, 2013)

[2] Office of the Economic Advisor, Ministry Of Commerce & Industry.

[3] Data published by National Sample Survey Organization. (NSSO), various issues.

[4] A. Reha, "Consumption Boom in Rural India", Great Lakes Institute of Management, Chennai.05, Nov. 2013.

[5] K. Neetika, "India's Changing Consumption Habits", Associate Fellow at Observer Research Foundation.

[6] S. Savneet, "India's Changing Consumption Patter", GYANPRATHA-ACCMAN, Journal of Management Vol. 5, issue2